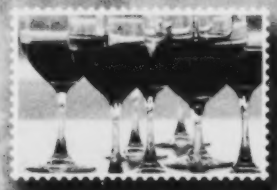
LCBO Annual Report 2005-06



Australia Ontario Ireland

Bringing our customers products from 72 countries

LCBO Annual Report 2005-06

Under the *Liquor Control Act*, the LCBO is required to prepare an annual report to the Minister and the Treasurer of Ontario. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; however, it also provides an overview of the Ontario beverage alcohol marketplace.

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Credits

The LCBO wishes to thank the members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document. This report is also available at www.lcbo.com, under About LCBO.

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Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 2005-06.

Members of the LCBO Board (during fiscal 2005-06)

ANDREW S. BRANDT
Chair and Chief Executive Officer; retired from Board February 6, 2006.

PHILIP J. OLSSON
Acting Chair and Chief Executive Officer

JEAN SIMPSON
Member; Chair, Audit and Governance Review Committee

DR. LINDA BRAMBLE
Member; Member, Audit and Governance Review Committee; resigned from the Board May 24, 2006.

LAUREL MURRAY
Member; Member, Audit and Governance Review Committee

STEVE DIAMOND
Member

BOB PETER
President and Chief Operating Officer

Letter of Transmittal

THE HON. DAVID CAPLAN
Minister of Public Infrastructure Renewal

Dear Minister,

I have the honour to present you with the 2005-06 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

PHILIP J. OLSSON
Acting Chair and Chief Executive Officer

2007-04592/

message from the minister

...LCBO exceeded its previous dividend by 7.6 per cent, delivering $1.2 billion to the province in fiscal 2005-06...

As Minister of Public Infrastructure Renewal, with responsibility for the LCBO, I am pleased to provide you with the LCBO Annual Report for the fiscal year 2005-06.

Since assuming responsibility for the LCBO in the summer of 2005, I have enjoyed an excellent working relationship with this important government agency. I've witnessed closely the leadership that is responsible for the LCBO's ongoing improvement.

During fiscal 2005-06, the LCBO worked hard to continue to meet the expectations of government, customers, taxpayers and other stakeholders.

As you will read in the pages that follow, the LCBO exceeded its previous dividend by 7.6 per cent, delivering $1.2 billion to the province in fiscal 2005-06, excluding taxes. These funds support health care, education and other government priorities, programs and services.

In the 2004-05 Annual Report, I challenged the LCBO to introduce further improvements by:

- making operations even more efficient and cost-effective
- contributing to the success of Ontario's domestic beverage alcohol industries
- being governed according to the highest standards of transparency and accountability
- helping to preserve Ontario's environment by reducing package waste; increasing diversion rates; improving all aspects of environmental management; reducing consumption of energy and utilities; and promoting re-use and conservation
- continuing to work on its own, and in partnership with others, to promote responsible drinking and discourage high-risk activities such as drinking and driving, while maintaining vigilant responsible service to prevent sales to minors and intoxicated adults, and
- increasing revenues to government.

Examining its performance during 2005-06, I am pleased that the LCBO met these challenges by effectively managing operating costs through good expense control, while continuing to grow the business in a socially responsible manner.

The agency contributed to the success of Ontario's domestic beverage alcohol industry through dedicated, knowledgeable staff known as Spirits Advocates, WOW (Wonderful Ontario Wines) Leaders and Beer Guys and Beer Gals, and through innovative promotions that featured domestic product.

With Philip Olsson acting as Andy Brandt's successor, supported by a dedicated Board and seasoned management team led by Bob Peter, I'm confident that the good corporate governance, transparency and accountability Mr. Brandt was known for during his 15 years will continue and keep pace with changing demands.

In fiscal 2005-06, the LCBO continued to be vigilant at checkouts, as witnessed by the increase in its challenge and refusal program numbers. LCBO employees challenged more than 1.7 million customers in fiscal 2005-06 to produce proof of age because they appeared to be underage, appeared to be intoxicated or were suspected of trying to buy beverage alcohol for a minor or intoxicated person. This was a 17 per cent increase from the 1,436,291 challenged the year before.

Looking ahead to 2006-07, as the minister responsible for the LCBO, I will work closely with its Board, staff and trade partners to ensure the LCBO continues to focus on making improvements to meet the expectations of its customers and the taxpayers of Ontario.

Sincerely,

THE HONOURABLE DAVID CAPLAN
Minister of Public Infrastructure Renewal and
Minister responsible for the Liquor Control Board of Ontario (LCBO)

message from the acting chair and ceo

...Net income was $1.204 billion, an increase of $57.5 million and a five per cent improvement on the previous year...

Every successful organization, whatever its purpose, has a set of fundamental values that influence decision-making and shape business practices. At the LCBO, two core values have guided its successful evolution: a commitment to serving the Ontario public in a socially responsible manner, and recognition of the need to be dynamic and innovative to take advantage of opportunities and meet the challenges of the future. In fiscal 2005-06, the LCBO built upon these core values.

The year included a fond farewell to Andy Brandt, who retired in February of 2006 after 15 years as Chair and CEO. Andy filled a special role in the history of the LCBO and helped bring these values to life. Working alongside Larry Gee, the former Executive Vice President, and current President and COO Bob Peter, he championed the transformation of LCBO into one of the most progressive retailers in North America.

The LCBO's transformation during the "Brandt years" has no parallel in Europe or North America, and even as we said farewell to Andy we reinforced our commitment to customer service and improving profitability, without compromising social responsibility.

In fiscal 2005-06 sales were $3.66 billion, an increase of $154 million and 4.4 per cent over the previous year. In addition, the LCBO collected provincial sales taxes of $342 million, GST of $125 million and federal duty and excise taxes of $321 million.

Net income – the key performance measure – was $1.204 billion, an increase of $57.5 million and a five per cent improvement on the previous year.

These are impressive figures. They were produced through a high standard of fiscal management, operational efficiency, customer service excellence, effective marketing and transparent corporate governance.

I was appointed Vice-Chair of the LCBO Board in June 2004 and became Acting Chair and CEO when Andy Brandt retired. I am Acting Chair and CEO because, under the Liquor Control Act, the Vice-Chair becomes the Acting Chair and CEO in the absence of the Chair.

The LCBO Board is responsible for ensuring the organization acts in the best interests of the people of Ontario. The LCBO is an important and valuable public asset and the Government wants to ensure it is well governed. This means that the Board is charged with striking the correct balance between economic and social goals.

At the LCBO this includes:

- setting clear objectives, including high-quality services to the public while ensuring that all our activities meet the highest standard of social responsibility
- establishing guidelines for assessing and managing business risks
- reviewing results against those objectives and guidelines, and
- playing a strong supporting role to LCBO senior management and frontline employees.

...The government considers the LCBO an important and valuable asset and wants to ensure it is well governed...

To help accomplish these objectives, our Board approves annual financial and business plans, helps develop and approve the strategic plan, and submits an annual financial plan to the Government.

To provide sound governance, Board members should be appointed solely for what they can contribute to the LCBO. I am pleased to say that working with the Government we have recruited an exceptional Board. Every member has the skills, experience and understanding needed to contribute to the LCBO today and in the future, and every one would qualify to be a valued member of any effective private sector board. We thank them for their contributions.

Board Member Dr. Linda Bramble stepped down after our fiscal year end so that she would be free of conflicts in providing her much-sought-after advisory services to the Canadian wine industry. On behalf of the Board, LCBO employees and people of Ontario, I would like to thank Dr. Bramble for her contributions over the past two years. She brought a valuable perspective to the Board.

In the pages that follow, you will read about a year marked by great progress – not only financial progress, but also progress in social and environmental responsibility and in the promotion of the Ontario beverage alcohol industry.

My fellow Board members and I would also like to thank every employee of the LCBO for once again meeting and in many cases exceeding key performance indicators for the year, while always striving to deliver service in a socially responsible way. We are honoured to be part of this dedicated team of professionals.

PHILIP J. OLSSON
Acting Chair and Chief Executive Officer

August 2006

senior management team 2005-06

BOB PETER	*President and Chief Operating Officer*
JACKIE BONIC	*VP, Store Development and Real Estate*
ALEX BROWNING	*Senior VP, Finance and Administration, and CFO*
TAMARA BURNS	*VP, Merchandising*
NANCY CARDINAL	*VP, Marketing and Customer Insights*
BOB DOWNEY	*Senior VP, Sales and Marketing*
ROY ECKER	*Senior VP, Retail Operations*
MARY FITZPATRICK	*Senior VP, General Counsel and Corp. Sec.*
MURRAY KANE	*Senior VP, Human Resources*
HUGH KELLY	*Senior VP, Information Technology*
BILL KENNEDY	*Executive Director, Corporate Communications*
GERRY KER	*Executive Director, Corporate Policy*
IAN MARTIN	*Senior VP, Logistics*
BARRY O'BRIEN	*Director, Corporate Affairs*
DR. GEORGE SOLEAS	*VP, Quality Assurance*
SHELLEY SUTTON	*Director, Strategic Planning*
TOM WILSON	*VP, VINTAGES*

message from the president and coo

...Our 2005-06 performance tells us that we have the right vision and strategies in place for satisfying our customers and building our business...

Our 2005-06 financial performance tells us that we have the right vision and strategies in place for satisfying our customers, building our business in partnership with our suppliers, and delivering on our financial commitments to our owners, the Government and the people of Ontario.

Record revenue, a healthy net income number, and another record dividend highlighted our financial performance.

These were achieved by good control of expenses, which came in $18 million or 3.1 per cent higher than the previous year, but $6 million below our target. This significantly improved performance was largely due to lower than expected marketing costs and a much lower than expected depreciation figure arising from deferred capital spending.

We also continued to improve our supply chain, increasing the frequency of inventory turns and reducing our capital investment in inventory, while also substantially growing sales. As a result of these improvements, we've been able to improve product selection and availability, while freeing up staff time to better serve customers and cash to reinvest in upgrading our stores, warehouses and IT systems. Our progress in improving our supply chain system was recognized by three Excellence in Retailing Awards from the Retail Council of Canada.

Hitting our financial targets is critical as is fulfilling our social responsibility mandate. In 2005-06, we completed our eighth year of customer satisfaction tracking. These studies provide us with annual checkpoints and important information on how well we are doing in delivering engaging customer service. These studies are a key component in our annual planning and measurement of results.

Prevention of sales to minors topped the list across all regions and all districts when customers were asked what is most important to them. Total challenges by LCBO retail staff were 1,722,112, up from 1,436,291 in 2004-05. Social responsibility concerns have always been uppermost in the public's mind and this survey shows just how important it is to them – and how important it is that we continue to live up to that obligation. Some of the other aspects of our business that are most important to our customers are offering wide product selection, and having knowledgeable and friendly staff.

Our more than 6,000 employees have brought our *Discover the World* brand vision to life daily in new and creative ways. From the store level to the warehouse to the head office, LCBO employees take pride in serving our customers with knowledge and enthusiasm by being their trusted advisers.

In the summer of 2005, the LCBO ratified a new four-year collective agreement with the Liquor Board Employees Division of the Ontario Public Service Employees Union (OPSEU) for its 5,400 unionized employees. The contract expires March 31, 2009.

This year also marked the beginning of an ambitious new environmental strategy for the LCBO, kicked off by the global launch of the French rabbit family of wines in environmentally-friendly Tetra Pak containers.

Developed jointly by Boisset and the LCBO, French rabbit became the most successful launch of a new wine in LCBO history. The success of this product created momentum to introduce a range of new products in innovative package formats that dramatically reduce the amount of package waste generated by LCBO sales.

...The LCBO was founded on social responsibility and we are now building on that tradition of caring by promoting environmentally responsible retailing practices...

By the end of the year, several new products were launched in Tetra Pak containers, PET plastic bottles and aluminum containers, with each contributing to our goal of eliminating 10 million kilograms of waste per year. More than 60 new products were also in development, for launch in fiscal 2006-2007.

This wave of innovation sparked interest in the creation of new Tetra Pak packaging facilities in Ontario to serve the North American market. This will create new jobs and economic activity in Ontario, while providing an opportunity for Ontario wineries to offer products in this format.

The LCBO has also established a Natural Heritage Fund to help protect Ontario's natural heritage by preserving and expanding wildlife habitat. Funding comes from both supplier contributions and by committing 50 cents from the sale of every cloth Envirobag sold at LCBO stores.

The LCBO was founded on social responsibility and we are now building on that tradition of caring by promoting environmentally responsible retailing practices. Research confirms that both the public and our employees care about the environment and wish to help make a difference to the future.

Already, the LCBO's Natural Heritage Fund has supported projects such as river rehabilitation, an eaglet identification project in the Thousand Islands, the restoration of natural habitat for threatened frog species and a breeding program for the Eastern Loggerhead Shrike songbird.

In 2005-06, we also continued to promote the domestic wine industry, as one of our six corporate objectives is to continue to grow Ontario wine sales. The past year was another difficult one for Ontario wineries as there was another short crop due to severe frosts last winter that resulted in a significantly reduced 2005 Ontario grape harvest. Through in-store programs and our WOW Leaders, who promote Ontario wines to our customers, and other marketing promotions, the LCBO is committed to helping the domestic industry weather this hardship. Despite this short crop, we still managed to increase Ontario wines' market share by 0.2 per cent.

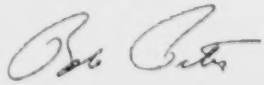
Over the past year, the LCBO has also undertaken initiatives to promote Ontario craft beers and provide an ideal retail environment to showcase these premium products. For example, the category is supported in-store by 100 Beer Guys and Beer Gals, specially trained LCBO staff designated to promote Ontario craft beers to customers, and display fixtures exclusively showcasing Ontario craft beers in key LCBO locations.

LCBO employees enjoy working with the Ontario Craft Brewers to help our customers discover the quality and value of these locally produced beers. Sales of premium Ontario craft beers in LCBO stores increased by 33 per cent in net sales and 34 per cent in volume in fiscal 2005-06 compared to fiscal 2004-05. Volume sales of premium Ontario craft beers in the total Ontario beer market have increased by more than 10 per cent over the past year.

Looking ahead, in 2006-07 we are entering year four of our five-year strategic plan. Our plan and our vision have given us the direction and inspiration for what we have achieved since 2003 and they continue to be the road map for us to follow.

Next year's sales goal of $3.8 billion is ambitious, but not beyond our preparations, ability and commitment to achieve or exceed it.

While we made great progress in the last year, we cannot "rust" on our laurels. Continuous improvement is the lifeblood of any forward-thinking and innovative organization and the LCBO prides itself on keeping the momentum moving and continuing to improve our product selection and customer service.



BOB PETER
President and Chief Operating Officer

August 2006

board members |

← PHILIP J. OLSSON ← JEAN SIMPSON

Members of the LCBO Board, like those of other government agencies, boards and commissions, are appointed by the sitting government through Orders-in-Council. Appointments, up to five years, are sometimes renewed.

PHILIP J. OLSSON

Appointed Vice Chair June 17, 2004 and became Acting Chair and CEO, February 6, 2006. Term expires June 2007.

A partner in K J Harrison & Partners Inc., a privately-held investment firm, he has had a 30-year career as an investor and investment and commercial banker. Past positions have included directing the private equity groups at a large mutual fund company and a chartered bank, and Vice Chairman of RBC Dominion Securities, Canada's largest investment bank. He holds BA and MBA degrees from Vanderbilt University and studied monetary economics as a postgraduate at the London School of Economics. He is a director of a number of private companies and has long been active in community and civic affairs on behalf of such organizations as the United Way, Wilfrid Laurier University, the Shaw Festival and Trout Unlimited.

JEAN SIMPSON

Appointed November 3, 2004. Term expires November 2007. Chair of the Audit and Governance Review Committee.

Ms. Simpson has had a lifelong interest in mental health, beginning her career as a nurse and moving into management at the Clarke Institute of Psychiatry and Women's College Hospital in Toronto. She then became Director of Mental Health Programs and Services at the Ministry of Health, returning to the Clarke Institute as Executive Vice President and COO and subsequently Executive Vice President and Chief Operating Officer of the Centre for Addiction and Mental Health when it was created in 1998. She retired in June, 2003, but has continued her work in mental health through membership of the boards of the Ontario Women's Health Council (2003-2006), which advises the Minister of Health on women's health issues, the Ontario Council of Alternative Businesses, a not-for-profit organization with a provincial mandate to develop alternative businesses owned and operated by psychiatric survivors and consumers of the mental health system, and Workman Arts, a company committed to helping improve the quality of life of individuals who experience mental illness or addiction. As a former COO, she also coaches senior business executives.

STEVE DIAMOND

Appointed September 21, 2005. Term expires September 2008.

Mr. Diamond is a partner in McCarthy Tetreault's Real Property and Planning Group. He also serves as a director of the Mount Sinai Hospital Foundation, Whitecastle Investments and the Ontario Urban Development Institute. He is interested in environmental issues both as a lawyer and a layman. His law practice focuses on work in the administrative law area, providing advice and advocacy in matters pertaining to planning, environmental and municipal law. He has acted for a wide variety of both public and private sector clients. Mr. Diamond's practice involves strategic advice as well as appearances before municipal councils, the courts and the Ontario Municipal Board. He has acted as counsel on

← STEVE DIAMOND ← LAUREL MURRAY ← DR. LINDA BRAMBLE

some of the largest and most sophisticated projects that have been approved in the Greater Toronto Area. Mr. Diamond received his LLB from the University of Western Ontario and was called to the Ontario bar in 1978. He gives back to the educational community through frequent lectures at law schools and other educational organizations.

LAUREL MURRAY

Appointed August 8, 2005. Term expires August 2008. Member, Audit and Governance Review Committee.

Laurel Murray is a Chartered Accountant with more than 18 years of senior management experience in the private and public sectors. Since 2000, Ms. Murray has headed up her own management consulting firm. Over the past 20 years, she has helped a number of federal and provincial agencies and ministries improve the way they manage risks, measure performance and improve accountability. Ms. Murray is a proponent of good governance and oversight. She also has a keen interest in the environment. Her areas of expertise include strategic planning and reporting; performance measurement; integrated risk management; financial management, accounting and auditing; financial systems; project management; program implementation and organizational design. She graduated with honours from Carleton University in 1986 with a Bachelor of Commerce. She received her Chartered Accountant designation from the Canadian Institute of Chartered Accountants in 1989. An active volunteer, Ms. Murray has given her time in the past to help those in need in her community.

DR. LINDA BRAMBLE

Appointed July 5, 2004. Resigned from the Board May 24, 2006. Member of the Audit and Governance Review Committee.

Dr. Bramble is a wine writer and broadcaster, tour guide and former professor in wine appreciation at the Cool Climate Oenology and Viticulture Institute at Brock University in St. Catharines. Dr. Bramble was also recently inducted as a Fellow into the Cool Climate Oenology and Viticulture Institute, which allows her to continue to do research with the university as an industry associate. Among several other books, she has written two about Ontario wine country: *Discovering Ontario's Wine Country* and *Touring Niagara Wine Country*. Dr. Bramble is a former lecturer in philosophy and education at Brock University and Concordia University in Montreal and a program director with the Niagara Institute, a think tank bringing together leaders from business, labour, government and academia, now part of the Conference Board of Canada. A frequent contributor to wine publications and radio shows, Dr. Bramble has hosted a cooking and wine-matching show on the Niagara cable TV channel and has taken tour groups to wine regions in Tuscany and Umbria.

corporate structure

...LCBO's mission is "To be a socially responsible, performance-driven, innovative and profitable retailer, engaging our customers in a discovery of the world of beverage alcohol through enthusiastic, courteous and knowledgeable service."

The LCBO is a provincial government enterprise reporting to the Minister of Public Infrastructure Renewal. Its mission is "To be a socially responsible, performance-driven, innovative and profitable retailer, engaging our customers in a discovery of the world of beverage alcohol through enthusiastic, courteous and knowledgeable service."

The LCBO has a Board of up to seven members. They are appointed by the Lieutenant-Governor, through Orders-in-Council, on the recommendation of the Premier and the Minister of Public Infrastructure Renewal. Members are appointed for a term of up to five years. There are regular monthly Board meetings.

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- ensuring that the LCBO provides high-quality service to the public
- developing and approving the strategic plan and monitoring management's success in meeting its business plans
- approving annual financial plans
- ensuring that the organization remains financially sound
- assessing and managing business risks
- submitting an annual financial plan to the Minister of Public Infrastructure and Renewal
- ensuring the organization has communications programs to inform stakeholders of significant business developments, and
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

Audit and Governance Review Committee

The Board has an Audit and Governance Review Committee whose members are elected by the Board. The committee is responsible for the reliability and accuracy of the LCBO's financial statements and for assessing the risks facing the organization and its management. It also reviews and advises on possible changes to the LCBO's corporate governance policies and practices, and ensures that the LCBO adheres to sound corporate governance principles.

Ethics and Business Conduct

The Board has adopted a code of conduct that includes policies addressing conflict of interest, confidentiality, the outside activities of employees and officers, gifts and entertainment, and human rights.

Health and Safety

The Board approves an annual health and safety policy and ensures it is kept informed of health and safety issues through regular reports.

Store Planning and Development Committee

This is a management committee that reviews real estate and leasing transactions and makes recommendations to the Board for final approval.

Listings Appeals Committee

This committee reviews appeals of denials of listing applications.

Accountability

The LCBO is accountable to its stakeholders in a number of ways, including:

- its Annual Report, required to be tabled in the provincial legislature and available to all Ontarians online at *www.lcbo.com*
- annual audits of LCBO financial statements and periodic value-for-money audits – conducted by the Office of the Auditor General of Ontario – as well as internal value-for-money audits of LCBO programs conducted by LCBO Internal Audit
- public access to records under the *Freedom of Information and Protection of Privacy Act*
- publicly appointed Board Members
- various statutory reporting requirements under the *Liquor Control Act* to the Minister and the Treasurer of Ontario, and
- compliance with Management Board's Agency Accountability Directives.

customer segmentation | Customer segmentation research helps match products and services to shoppers' interests

A new study of what customers buy and what influences their spending when shopping at the LCBO has led to the creation of new customer profiles to help employees provide engaging customer service.

Their level of interest in learning more about beverage alcohol products and their social and entertaining habits were also included in the customer segmentation studies.

This compares with the customer segments in place since 1997, which were based on consumer interest in learning more, social habits, shopping and product preferences.

The new segments are based more on behaviour than attitude – what shoppers are actually buying and how likely they are to spend more. This gives the LCBO more insight into their interests and helps us align our strategy better to cross-sell, up-sell and migrate customers to other product categories.

The new segments are: *Experience Seekers, Mixers and Shakers, Peers and Cheers, Young Experimental Sociables, Aspiring Stay-at-Homes and Comfy at Homes.*

The characteristics of the six segments include:

Experience Seekers: Mostly interested in red and imported wines. Usually browse the aisles and are interested in learning about new products. Buy on advice of employees, media and *FOOD & DRINK*. Well educated, married, aged 40 to 59 with high income.

Mixers and Shakers: Interested in coolers, spirits and beers. Like to browse, open to suggestions and willing to pay more for premium products. Influenced by recommendations from employees, media and bonus AIR MILES. Single and under 25.

Peers and Cheers: Interested in beer, spirits and occasionally Ontario white wine. Knowledgeable about beer but have little interest in learning about other products. Shop often but make quick in and out visits. Young married men.

Young Experimental Sociables: Mostly interested in wines from all regions. Buying decisions influenced by product features, bonus AIR MILES and value-adds. Food matching also an interest. Open to suggestions. Young and single.

Aspiring Stay-at-Homes: Interested in wine, but sometimes beer, usually imported. Purchases based on brand, price and bonus AIR MILES. Occasional shopper for beverage alcohol but open to learning more about all beverage alcohol. Married.

Comfy at Homes: Interested in Ontario white wine, but sometimes beer, usually domestic. Occasional shoppers, their purchasing decisions are based on price and bonus AIR MILES. They have little interest in learning more. Older women with lower income.

Considerable change since 1997

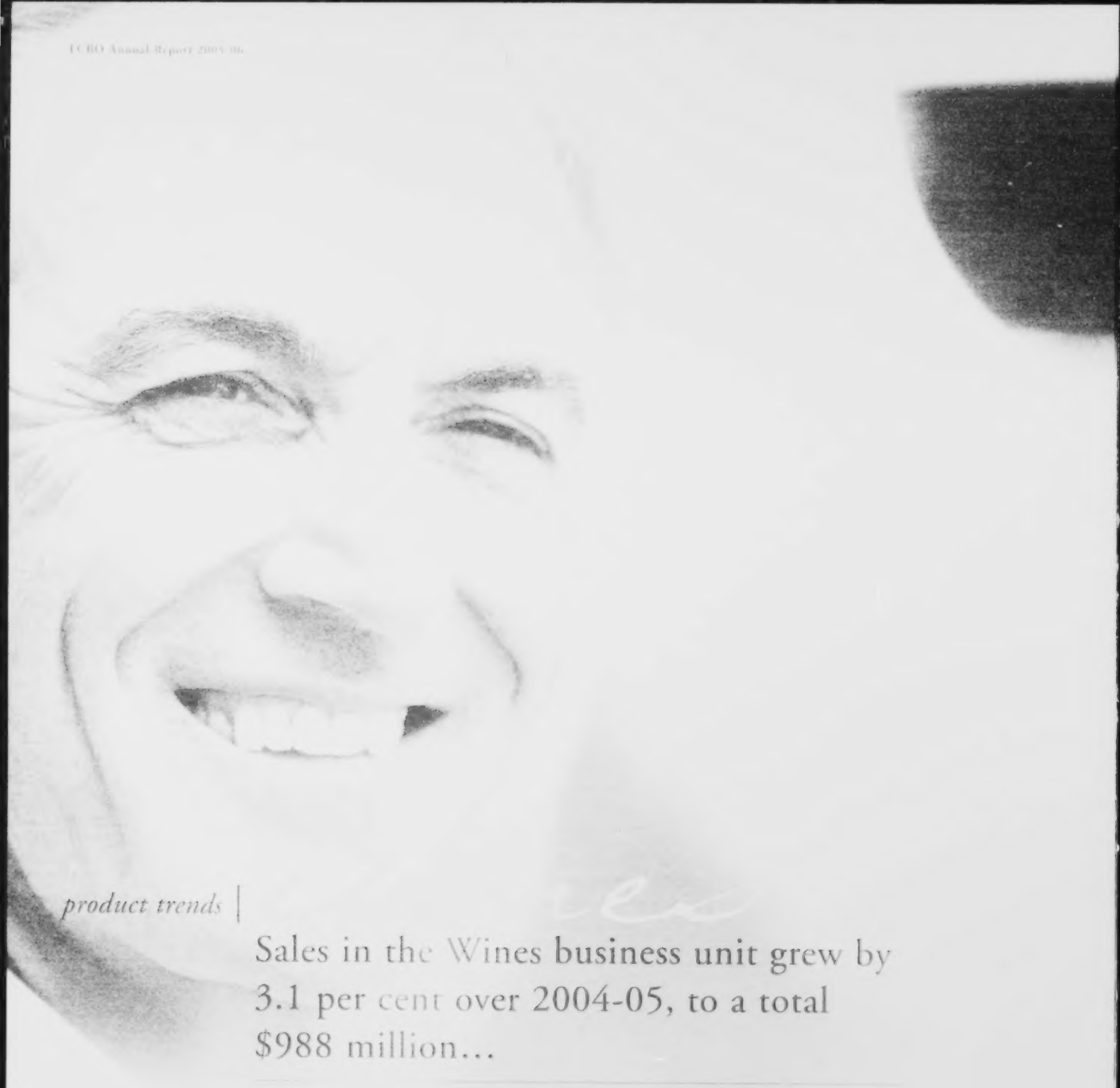
Considerable changes in customers' interests have taken place in the eight years since the 1997 study on which the existing segments were based. Buying patterns change, customers' life-stages change and their level of engagement at the LCBO changes.

For example, a single person between the ages of 20 and 25 eight years ago was likely to have just started a job, had lots of disposable income and had a busy social life.

Eight years later and they are married, have children, own a house and are on a budget. They are still interested in beverage alcohol but their social habits are not the same and that means their buying patterns have changed.

The new study included more than 1,000 interviews with people across Ontario, who were asked to answer nearly 50 questions. This was cross-referenced with findings in the annual Corporate Tracking Study, which includes in-depth interviews with 2,400 customers. There were also 21 focus groups in Toronto, Brampton, London, Ottawa and Sudbury to gain more insight into likes and dislikes and the reasons for preferences.

The new segmentation will be used to target resources to deliver the best possible shopping experience. Beginning in 2006-07, the LCBO will tailor messages for specific audiences and will use the new segmentation in marketing, store design, product mix and customer service to deliver on the organization's brand promise of helping customers *Discover the World* of beverage alcohol.

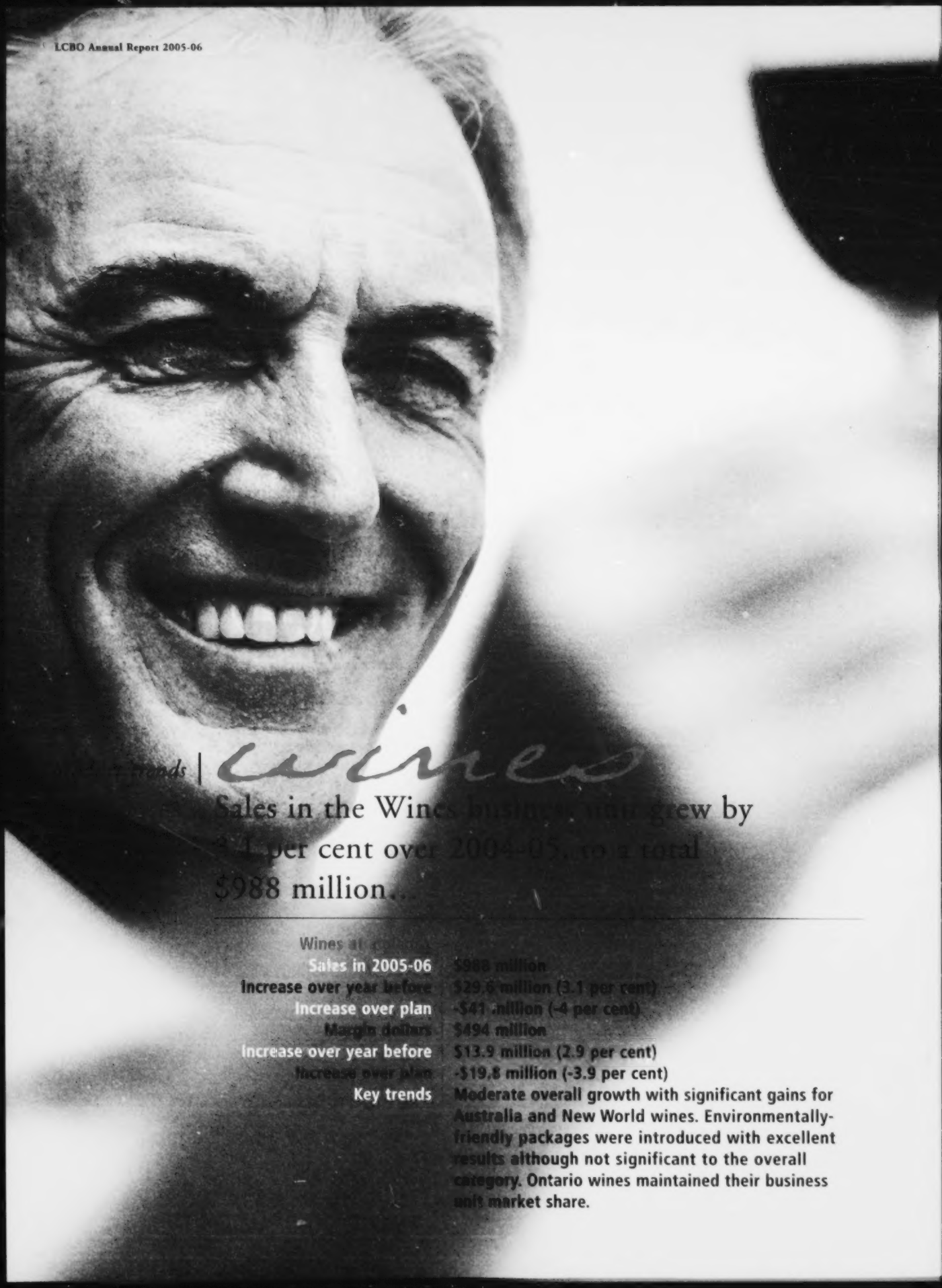


product trends

Sales in the Wines business unit grew by 3.1 per cent over 2004-05, to a total $988 million...

	$988 million
Increase over year before	$29.6 million (3.1 per cent)
	-$41 million (-4 per cent)
Margin dollars	$494 million
	$13.9 million (2.9 per cent)
Increase over plan	-$19.8 million (-3.9 per cent)

Moderate overall growth with significant gains for Australia and New World wines. Environmentally-friendly packages were introduced with excellent results although not significant to the overall category. Ontario wines maintained their business unit market share.



...trends | wines

Sales in the Wines business unit grew by ...4 per cent over 2004-05, to a total of $988 million...

Wines at a glance	
Sales in 2005-06	$988 million
Increase over year before	$29.6 million (3.1 per cent)
Increase over plan	-$41 million (-4 per cent)
Margin dollars	$494 million
Increase over year before	$13.9 million (2.9 per cent)
Increase over plan	-$19.8 million (-3.9 per cent)
Key trends	Moderate overall growth with significant gains for Australia and New World wines. Environmentally-friendly packages were introduced with excellent results although not significant to the overall category. Ontario wines maintained their business unit market share.

Outlook for 2006-07:

- → Continue to support and work with the Ontario wine industry
- → Continue to support the environmental packaging initiative
- → Work at developing emerging and fast growing countries such as the U.S., South Africa, Spain, Portugal, Argentina and New Zealand
- → Foster the development of varietals with specific focus on Sauvignon Blanc, Pinot Grigio and Pinot Noir
- → Trade consumers up beyond the $8 price point for a 750mL bottle
- → Develop new consumption occasions through single serving sizes and multi-packs
- → Work collaboratively with suppliers to build stronger brands and innovative and convenient packaging

Sales in the Wines business unit grew by a moderate 3.1 per cent over 2004-05, to a total $988 million, four per cent short of plan. Volume sales increased by only two per cent to 95 million litres, showing that consumers continue to trade up to premium products. In addition, consumers continue to show interest in emerging countries, screw caps, and environmentally-friendly alternative packaging.

The main sales growth contributors in 2005-06 were:

- Australia (up $13.7 million)
- Ontario (up $7.4 million)
- Products priced $12 to $15 (up $17.6 million)
- Environmentally-friendly products (up $6 million)
- Emerging countries such as South Africa (up $4.3 million), Argentina (up $2.4 million), New Zealand (up $2.3 million) and Spain (up $1.9 million).

The Wines business unit has three distinct categories: Ontario, New World and Europe. Here's how each fared in 2005-06:

Ontario wines: net sales for Ontario wines grew by 3.2 per cent. This was in line with the total wine market, which grew by 3.1 per cent. The largest contributors to the growth of Ontario table wines were Ontario varietals (up 6.16 per cent), followed by VQA wines (up 5.3 per cent) and Ontario sparkling wines (up 1.4 per cent).

Although they represent less than two per cent of litre sales, Shiraz, Gamay Noir and Pinot Grigio doubled their sales versus the previous year, while Sauvignon Blanc represents 5.6 per cent of litres sold and is growing at 32 per cent versus 2004-05.

European wines: European wines maintained volume in 2005-06 as the Société des alcools du Québec (SAQ) labour dispute created a one-time sales increase at the LCBO. Specifically, the major trends for European wines were:

- Italy grew a modest 1.6 per cent, maintaining its share of the wines business at 14.6 per cent
- France lost $6.7 million in sales, or 5.2 per cent
- Spain is the fastest growing segment with sales of $11.5 million, which is 19 per cent or $1.9 million above the previous year.

New World wines: New World wines accounted for most of the growth, representing $24.8 million or a 7.1 per cent increase versus the previous year. This segment now represents $372 million per year or 38 per cent of overall Wines category sales.

Here's how other New World wines fared in fiscal 2005-06:

- Australia grew by 7.44 per cent or $13.7 million of additional revenue to $198 million
- United States grew by $2.6 million or 4.6 per cent to $60.6 million
- New Zealand was the fastest growing region with 42 per cent growth to $7.7 million
- South Africa grew 19 per cent to $26.2 million.

Note: Business unit totals do not include sales through VINTAGES and the Private Ordering and Consignment programs.

product trends

Spirits

the Spirits business unit grew by 3.5 per cent
r 2004-05 to a total of $1.42 bill[illegible], the largest
contribution of any product category.

Spirits at a glance	
Sales in 2005-06	$1.42 billion
Increase over year before	$48 million (3.5 per cent)
Increase over plan	$11 million (0.8 per cent)
Margin dollars	$823 million
Increase over year before	$30 million (3.7 per cent)
Increase over plan	$10 million (1.2 per cent)
Key trend	Strong growth in vodka, liqueurs, rum, tequila, gin, and American and Scotch whiskies.

product trends | Spirits

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Spirits at a glance

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Key trend	Strong growth in vodka, liqueurs, rum, tequila, gin, and American and Scotch whiskies.

Outlook for 2006-07:

- → Sales projected to rise by 5.9 per cent to $1.5 billion
- → Margin dollars projected to rise by 6.6 per cent to $878 million
- → Domestic sales projected to rise by 6.1 per cent, margin dollars by 6.7 per cent
- → Import sales projected to rise by 6.5 per cent, margin dollars by 7.1 per cent
- → Holiday gift sales projected to rise by three per cent to $16.5 million
- → Vodka, liqueurs, rum and Scotch whisky will continue to drive sales growth

Spirits account for just 15 per cent of litre sales but 41 per cent of net sales and 47 per cent of margin dollars. The business unit's margin rate of 58 per cent was significantly higher than the corporate rate of 49.9 per cent.

The following helped spur the growth of spirits sales in 2005-06:

Promotions: Two promotions that debuted in 2003-04 were repeated this year to capitalize on growing consumer interest in mixing drinks. Sales during *Cocktails Make the Scene* grew by $3.6 million or 3.5 per cent versus the previous year and by $2.1 million or 2.2 per cent during *Whisky Rocks Unplugged*.

Cocktails: Spirits growth continued to benefit from the continuing popularity of cocktails and vodka and liqueurs – two of the most popular spirits in mixed drinks – enjoyed sales increases of 8.4 and 5.6 per cent respectively. The LCBO offered customers quick, easy recipes taste-tested by experts from the LCBO and the spirits industry.

Premium products: Most growth came in premium and deluxe price bands, up 5.7 per cent and 5.6 per cent respectively. Standard brands declined 1.4 per cent.

Innovation: New flavoured products, especially those that make good cocktail ingredients, were well received by consumers. Some 36 per cent of spirits' annual growth came from 85 new products introduced in 2005-06.

Gifts: The holiday gift program was a resounding success with sales of gift packs increasing 8.7 per cent or $1.3 million. This was $16 million in total net dollar sales, which exceeded target by $1 million. There were 83 gift packs. The top four categories were Canadian whisky, cream liquor, liqueurs, and brandy/cognac. These accounted for three-quarters of the spirits gift pack sales.

Supply: Improved inventory flow helped ensure stores had the products customers wanted, when they wanted them, especially during the busy holiday season.

Supplier collaboration: LCBO suppliers helped drive the growth in spirits through their support of promotions and tie-ins to on-premise activities.

All segments grew, except Canadian whisky, other whiskies, brandy/cognac and duty-free. The strongest growth came from vodka (up $23.6 million or 8.4 per cent) and liqueurs (up $11.7 million or 5.6 per cent). Vodka sales have grown by almost $100 million to $304.4 million since 2000-01.

Other segments that did well included tequila (up 16.8 per cent), Irish whiskey (up 8.7 per cent), American whiskey (up nine per cent), gin (up 3.6 per cent) and rum (up 3.1 per cent).

Duty-free spirits sales, which rebounded in 2004-05 by 2.1 per cent, declined in 2005-06 by 3.5 per cent.

The highest rates of growth were for premium and deluxe products in higher price bands. Excluding gift packs, sales of liqueurs, duty-free sales, premium and deluxe products accounted for 80.4 per cent of the business unit's growth over the previous year.

Domestic spirits increased 2.6 per cent in value, 2.8 per cent in margin and 2.2 per cent in litres. The fact that dollar sales and margin increased at a faster rate than litre sales shows customers were trading up to more premium products.

Imported spirits increased by 5.2 per cent in value, 5.3 per cent in margin and 2.9 per cent in litres. These figures also reveal a trend toward premium products.

Customer focused activities in 2005-06

Mixed drink display: In more than 70 stores, the mixed drink display changes monthly, offering four new "Guaranteed Delicious" cocktails that are easy to make. All ingredients are displayed, often in 375 mL sizes to encourage trial.

Spirits Advocate program: This program selects one person in the top 250 spirits-selling stores to act as a "resident expert" on spirits, interacting with customers and helping them understand the versatility, cost-effectiveness and ease of using spirits. They are also responsible for passing on their knowledge to colleagues to ensure someone has the answer whenever a customer has a question.

Premium fixture: In more than 70 stores, the premium fixture program brings in rare and unique spirits, allowing customers access to hard-to-find items. With a focus on brown spirits in the fall, and white spirits in the spring, we search the globe for unusual products that may be in short supply – some of which are exclusive to the LCBO.

Note: Business unit totals do not include sales through VINTAGES and the Private Ordering and Consignment programs.

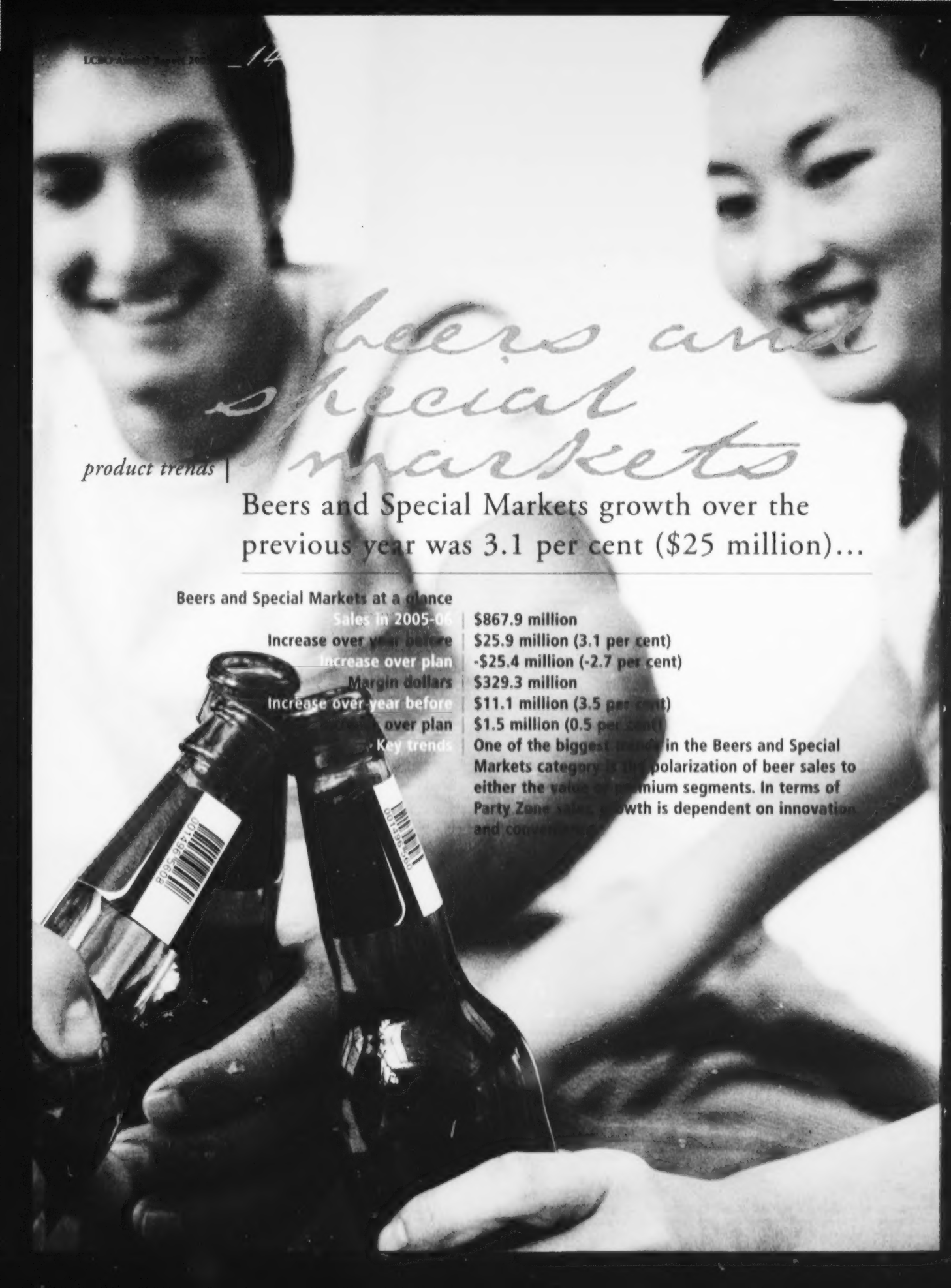
product trends

Beers and Special Markets growth over the previous year was 3.1 per cent ($25 million)...

Beers and Special Markets at a glance

	$867.9 million
Increase over year before	$25.9 million (3.1 per cent)
	-$25.4 million (-2.7 per cent)
Margin dollars	$329.3 million
	$11.1 million (3.5 per cent)
Increase over plan	$1.5 million (0.5 per cent)

One of the biggest trends in the Beers and Special Markets category is the polarization of beer sales to either the value or premium segments. In terms of Party Zone sales, growth is dependent on innovation and convenience.



product trends |

Beers and Special Markets

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Beers and Special Markets at a glance

Sales in 2005-06	$867.9 million
Increase over year before	$25.9 million (3.1 per cent)
Increase over plan	-$25.4 million (-2.7 per cent)
Margin dollars	$329.3 million
Increase over year before	$11.1 million (3.5 per cent)
over plan	$1.5 million (0.5 per cent)
Key trends	One of the biggest trends in the Beers and Special Markets category is the polarization of beer sales to either the value or premium segments. In terms of Party Zone sales, growth is dependent on innovation and convenience.

Outlook for 2006-07:

→ Beers and Special Markets sales projected to rise by 2.5 per cent to $902.8 million and margin dollars to increase by 3.5 per cent to $345.3 million

→ There will continue to be strong focus on Ontario Craft Brewers products to build on sales momentum gained with the launch of the Ontario Craft Brewers marketing cooperative in 2005-06

The Beers and Special Markets business unit is made up of all beers sold through the LCBO as well as imported beer shipments to The Beer Store (TBS). It also includes coolers, cocktails-to-go (also referred to as Party Zone), and niche segments such as sake, ciders and bar accessories.

Beers and Special Markets managed its inventory well both from a turn and Gross Margin Return on Investment (GMROI) perspective, with both exceeding targets and previous year results.

While the 2005-06 fiscal year got off to a great start with hot, sunny weather, customer buying patterns were affected by the possibility of a labour dispute by LCBO unionized employees. This led to customers stocking up on wine and spirits. However, once the situation was resolved, many customers either chose to shop at TBS for 12 and 24-format cases of beer or, in the case of Party Zone, they had purchased enough product to last an extended period of time. Also, the conversion of several LCBO combination stores to new TBS stores cut more than $3 million of sales from the Beer and Special Markets category.

Despite these challenges, Beers and Special Markets drove sales and margin by:

- Continuing to improve the range of LCBO-exclusive import single cans of imported beer
- Introducing Party Zone party packs offering customers a volume discount on the bigger size and convenience of multi-packs
- Driving sales of Ontario Craft Brewers – a 33 per cent increase achieved by several merchandising and promotional initiatives
- Exceeding turns targets for this year and against last year – 16.6 turns versus 16.2 and 14.36 turns the previous year, and
- Improving GMROI results of 10.21 this year versus 8.86 the previous year.

Four key product sets made up approximately 70 per cent of sales in 2005-06. They were:

Imported non-US beer (LCBO sales and TBS shipments):
This category made up 38.7 per cent of business unit sales and was the fastest growing segment, up 9.7 per cent over the previous year.

Two areas of growth were: LCBO exclusives and value-price imports. LCBO exclusives include unique products and formats, ethnic products and one-time purchases that are only available at the LCBO. Beers and Special Markets carries beer from 40 countries, 17 more than TBS.

The value-price products, those in 500 mL cans, typically priced around $2 each, offer greater savings to customers on a per millilitre basis than many of the 24-pack domestic mainstream brands.

Ontario beer: Making up 30.6 per cent of business units sales, this segment grew by 2.9 per cent. Growth is primarily coming from the value-priced (14.7 per cent) and micro (41.9 per cent) products. Key to continued growth in this segment will be adding new value brands while protecting against declines in the mainstream category. Also key will be continuing to work with Ontario Craft Brewers to increase their profile and sales at the LCBO.

Spirit coolers: Accounting for 16 per cent of business unit sales, this category contributes 40 per cent more margin per unit than beer. A strong start to the fiscal year, linked to exceptionally hot and sunny weather, was balanced against poor sales in late summer and the fall due to stockpiling under the threat of an LCBO labour dispute. The year ended 0.4 per cent above the previous year's sales.

Cocktails-to-go: These products now account for 3.5 per cent of Beers and Special Markets sales and are an important driver of the Party Zone's "de-seasonalization" strategy, as these products have year-round appeal. Due to a quality assurance issue with the second largest selling brand in this sub-category, which extended over the key holiday season until year end, sales dropped by 1.8 per cent over the previous year.

Other categories include:
US beer: up 3.9 per cent over the previous year. Miller Genuine Draft and Yankee Jim drove sales in this segment
Out-of-province beer: up 3.8 per cent over the previous year
Kosher products: up 13.4 per cent over the previous year
Sake: up 6.2 per cent over the previous year. These gains are linked to a broadened selection of premium sakes
Ciders: up 8.4 per cent over the previous year. Sales growth occurred because we are now offering formats similar to beer, such as cans in 500 mL sizes
Accessories: down 10.9 per cent compared to the previous year as a change in strategic direction for bar accessories resulted in cancelled programs.

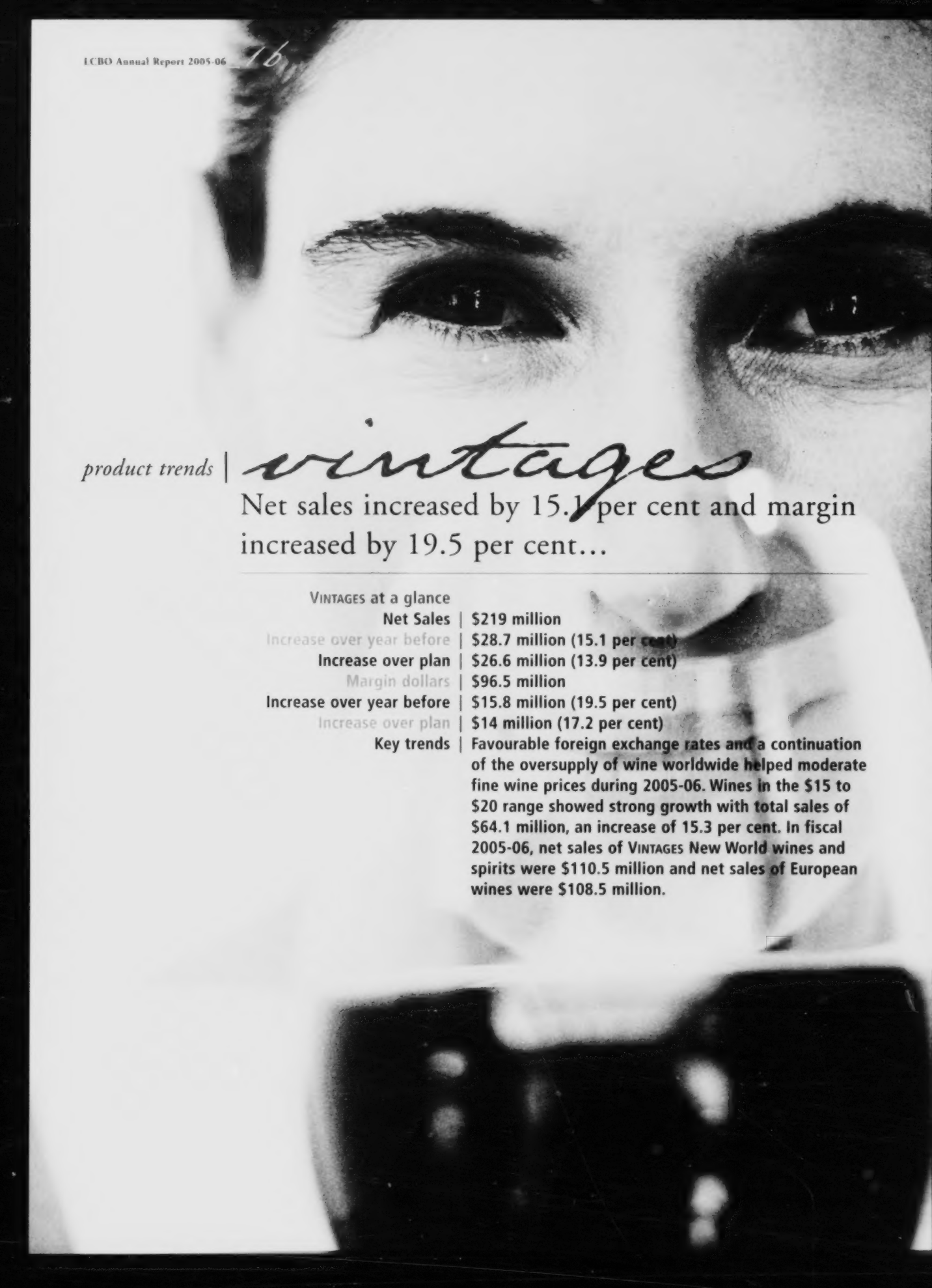
Note: Business unit totals do not include sales through Vintages and the Private Ordering and Consignment programs.

product results

Vintages

Net sales increased by 15.1 per cent and margin increased by 19.5 per cent...

Net Sales	$219 million
	$28.7 million (15.1 per cent)
Increase over plan	$26.6 million (13.9 per cent)
	$96.5 million
Increase over year before	$15.8 million (19.5 per cent)
	$14 million (17.2 per cent)
Key trends	Favourable foreign exchange rates and a continuation of the oversupply of wine worldwide helped moderate fine wine prices during 2005-06. Wines in the $15 to $20 range showed strong growth with total sales of $64.1 million, an increase of 15.3 per cent. In fiscal 2005-06, net sales of VINTAGES New World wines and spirits were $110.5 million and net sales of European wines were $108.5 million.



product trends | *vintages*

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VINTAGES at a glance	
Net Sales	$219 million
Increase over year before	$28.7 million (15.1 per cent)
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Outlook for 2006-07:

- → Net sales projected to increase to $236.5 million
- → Margin dollars projected to increase to $104.5 million
- → Sales of Ontario VQA table wines projected to increase eight per cent and Icewine by six per cent
- → Increased focus on premium and ultra-premium products
- → VINTAGES will continue to work with the Retail division to improve the way its products are merchandised
- → The largest Bordeaux Futures campaign will occur due to the "spectacular" 2005 vintage with net sales expected to top $10 million
- → New programs expected to drive sales this year include launching an Internet-based selling channel and increasing our assortment of products to serve the needs of Ontario's varied ethnic population
- → Continue to evolve VINTAGES events to enhance customers' tasting and educational opportunities

VINTAGES is the fine wines and premium spirits business unit of the LCBO. Following its vision, *Discover our Latest*, in 2005-06 VINTAGES released 4,575 products into the market.

VINTAGES made significant progress in the management of its inventories in 2005-06. Total inventory turnover in dollars increased by 30 per cent while total Gross Margin Return on Investment (GMROI) increased by 38.4 per cent.

VINTAGES also increased its Ontario VQA wine sales through expanded promotions and improved assortments. The VINTAGES VQA promotion held in September offered 29 VQA table wines in the release – the largest VINTAGES release of VQA wines to date. VQA net sales during this promotion were $1.1 million, up 33 per cent. For the year, VQA white wine sales were $2.2 million, up 10.8 per cent; VQA red wines sales were $2 million, up 13.5 per cent and VQA Icewine sales were $6.4 million, up 8.7 per cent.

VINTAGES sells products through the following programs:

Retail releases: This is the core of VINTAGES business, making up 64 per cent of sales. Retail sales were $151.3 million in 2005-06, up by 17 per cent. Every two weeks, more than 100 products, in a wide range of price points, are made available in 190 selected LCBO stores. More than half of the assortment each release is new to the Ontario consumer. VINTAGES *Wine-of-the-Month* and *FOOD & DRINK Discovery* programs continue to be successful and this year three new programs – *Benchmark, Arrive in Style* and *ON Tour* – were introduced. *Benchmark* provides products considered as "benchmarks" or exceptional examples of a country/region/grape variety or wine style. These selections must provide excellent value at their price point. *Arrive in Style* features one or two products on the back inside cover of every release circular and these are targeted as gifting "solutions" for customers. *ON Tour* is dedicated to the exploration of Ontario VQA wines. This feature, through a double-page spread every second release catalogue, showcases a winery, varietal or appellation together with three to five wines.

Other VINTAGES programs include:

Essentials: Offers a core group of 85 world-renowned and popular brands that are continuously available in the LCBO retail network, 17 of which are Ontario VQA. This year, a core group of Essentials products were made available at 56 LCBO stores in Ontario cottage country. This Summer Store program achieved sales of $2.4 million, an increase of 37 per cent. Total sales of Essentials products were $68.7 million – 29 per cent of VINTAGES business – and 28 per cent higher than the previous year.

Classics Catalogue: This direct marketing program offers more than 1,000 new and unique products annually, including limited allocations from prestigious estates, acclaimed older vintages and other rarities. Published four times per year, the *Classics Catalogue* accounted for $14 million in sales in fiscal 2005-06 – six per cent of VINTAGES business.

Bordeaux Futures: VINTAGES offers customers an opportunity to buy fine Bordeaux classified growths as "Futures" before they are bottled, usually at a significant discount to the eventual release price. In 2005-06, net sales reached $8.5 million – 3.6 per cent of VINTAGES business.

Virtual VINTAGES: This program offers our customers the opportunity to buy ultra-premium and rare products, many in larger formats, directly from our suppliers' cellars. These offers are usually made via the Internet and are sold through our VINTAGES Sales and Service Centre. This program provides an effective way to expand our assortment. Net sales in 2005-06 were $3 million – 1.3 per cent of all VINTAGES sales.

Events: Events continue to be a key strategic component of VINTAGES business strategy. More than 3,300 people attended VINTAGES events and tastings in 2005-06. These 20 events ranged from small winemakers' dinners for 75 guests to large-scale tastings for more than 450. On-site sales at VINTAGES events exceeded $600,000. VINTAGES also participated in New Zealand, Australia and California wine shows.

Auction: In November 2005, VINTAGES staged Ontario's fourth commercial wine auction with Ritchie's Auctioneers & Appraisers, giving collectors a rare opportunity to buy or sell fine wines. Total sales exceeded $1.7 million with an average price per lot of $1,615. More than 90 per cent of the 1,206 lots on offer were sold.

Note: VINTAGES totals do not include sales through the Wines, Spirits and Beers and Special Markets business units and the Private Ordering and Consignment programs.

growing sales | Ontario wines and beers

In 2005-06, the LCBO continued to promote the Ontario wine industry as "growing Ontario wine sales" is one of the organization's six corporate objectives.

The LCBO's partnership with the Ontario wine industry is consistent with Canada's international trade obligations and in keeping with the level of support other wine industries receive in their home markets.

With financial support from the provincial government, the industry has over the past few years increased its marketing investment to capitalize on consumer interest that has kept pace with increasing international recognition of the quality of wines made in Ontario.

The combination of new marketing initiatives and an array of LCBO programs have helped the Ontario wine industry maintain VQA market share through a period of limited wine supply due to the grape crop shortage. Despite this reduced supply, LCBO sales of Ontario VQA wines were up seven per cent to $52.1 million.

LCBO programs that promote Ontario wines include:

Ontario wine has an LCBO product manager dedicated to the region. The manager works with individual wineries to promote product sales through marketing initiatives, product advancements, product forecasting, new listing opportunities, etc.

In close to 300 large stores, an LCBO customer service representative has been designated as the local Ontario wine advocate or WOW (World of Ontario Wine) Leader. WOW Leaders help to ensure customers are aware of the excellent quality of Ontario wines, the VQA appellation system, wine tours, etc.

Representatives from the LCBO, including senior management, visit Ontario wineries to identify business opportunities, foster working relations and gain a better first hand understanding of developments at the wineries.

In partnership with the trade, the LCBO has developed a number of unique and ongoing sales programs for Ontario wine, including:

- *Superstars*, which features the promotion of two Ontario VQA wines per month, with dedicated shelving, promotional materials and a profile in *FOOD & DRINK* magazine. Since inception, the program has showcased 122 Ontario wines, giving consumers the opportunity to taste a wide variety of domestic offerings
- The *Vintages VQA Discovery* program
- The Craft Winery Program, which provides dedicated shelving, marketing and promotions for smaller Ontario wineries across 60 high-volume LCBO stores. This program has already made it possible for five wines to achieve full status.

The LCBO provides a number of marketing opportunities annually for Ontario wine. The LCBO's Marketing and Customer Insights department and Wines category meet with the Wine Council of Ontario on a regular basis to coordinate marketing activities and determine new opportunities. Some key examples:

FOOD & DRINK magazine typically includes at least one dedicated Ontario wine promotion and/or feature, including profiles of local winemakers and wineries. The annual fall issue of *FOOD & DRINK* functions as a showcase for Ontario wine varietals, wineries and cuisine.

from mid-September to mid-October, is a key annual Ontario wine promotion. Ontario wine has a very strong presence in LCBO stores and marketing programs during this high sales period (usually includes Thanksgiving). Ontario sales totalled $21,086,003, up 3.1 per cent from the previous promotion. Products on promotion accounted for 55 per cent of total sales in the period, a six per cent increase from fiscal 2004-05.

for Ontario wine in LCBO stores is prominent; in almost every LCBO store format, customers are first greeted by Ontario wine.

for Ontario wine in about 250 LCBO stores is a unique all-wood fixture, known as *VQA Cubes*. This shelving is also integrated as an ongoing feature in new and renovated LCBO outlets.

LCBO provides to Vintners Quality Alliance Ontario (VQAO) support on laboratory and quality assurance services. The LCBO's lab has also provided ongoing technical and laboratory assistance to winemakers to help better understand and address any viticultural challenges in the region.

Support for Ontario Craft Brewers

In fiscal 2005-06, the Ontario Craft Brewers (OCB) marketing cooperative was formed and the government of Ontario announced $5 million in funding over five years to support the fledgling cooperative.

While on a relatively small base, sales of premium Ontario craft beers in LCBO stores have increased by 33 per cent in net sales and 34 per cent in volume in fiscal 2005-06 compared to fiscal 2004-05. Volume sales of Ontario craft beers in the total Ontario beer market have increased by more than 10 per cent over the previous year.

Ontario craft beers claim five per cent of the hotly competitive Ontario beer market, up one percentage point from 2004-05. The goal of the craft brewers is to increase their share of the Ontario beer market from four per cent in 2005 to 12 per cent in 2014.

This growth over the past year is a clear indication of both the quality and future potential of Ontario craft beers. As with Ontario wine, this is an example of a great partnership to provide consumers with high quality Ontario products and continued support of a successful, home grown industry.

Over the past year, the LCBO has undertaken several initiatives to promote Ontario craft beer and provide an ideal retail environment to showcase these products. The category is supported in-store by 100 Beer Guys and Beer Gals, specially trained LCBO staff designated to promote Ontario craft beers to customers, and display fixtures exclusively showcasing Ontario craft beers in key LCBO locations.

environmental strategy | ...This year marked the beginning of an ambitious new environmental strategy for the LCBO...

This year marked the beginning of a new environmental strategy for the LCBO and the launch of the first vintage varietal wine in a Tetra Pak container in Canada. LCBO had requested that all its suppliers bring forward environmentally-friendly packaging. Winemaker Boisset was the first to respond with the French rabbit family of wines, which made their global debut in Ontario.

French rabbit became the most successful launch of a new wine in LCBO history. This success created momentum for a range of new products in innovative package formats that dramatically reduce the amount of package waste generated by LCBO sales.

By the end of the year, several new products were launched in Tetra Pak, PET plastic bottles and aluminum containers, with each contributing to the LCBO's goal of eliminating 10 million kilograms of waste per year. More than 60 new products were also in development, for launch in fiscal 2006-2007.

This wave of innovation also sparked interest in the creation of Tetra Pak packaging facilities in Ontario, to serve the North American market. In November 2005, the LCBO established new policies to make it possible for winemakers from around the world to package their wines in Tetra Paks for resale in North America. By opening the door to a potentially new market and making it commercially viable for a Tetra Pak facility to be set up in central Ontario, the LCBO hopes to further support alternative packaging options for Ontario's wine industry.

The LCBO plan also focuses on increasing recycling of all LCBO containers. The LCBO contributed $5 million again this year to Stewardship Ontario to support blue box recycling as part of its obligations under the Waste Diversion Act (based on Management Board directive and, in subsequent years, on methods under the *Waste Diversion Act*). The LCBO also supported efforts by Stewardship Ontario to reform and improve the blue box program to launch new projects that will improve the efficiency and effectiveness of municipal recycling systems. Part of the LCBO's contribution to Stewardship Ontario will help make possible a new multi-million dollar recycling facility that will improve markets for recycled glass and save municipalities millions of dollars, while creating more jobs and economic activity in Ontario.

These efforts are designed to help the LCBO achieve its goal of recovering 80 per cent of LCBO glass containers through blue box recycling, diverting 15 million kilograms of waste per year in addition to 10 million kilograms eliminated by the use of non-glass packaging.

LCBO is also working hard to reduce energy consumption in its stores and warehouses, with new investments in insulation, programmable thermostats, modern heating, ventilation and air conditioning equipment and lighting, and other efforts that will reduce overall consumption by more than 10 per cent per year.

The LCBO has also established a Natural Heritage Fund to raise money for wildlife habitat restoration and rehabilitation throughout Ontario. Funds were raised to support Carolinian forest restoration in south-western Ontario, to support the re-establishment of bald eagles in the upper St. Lawrence River in eastern Ontario, for wetland development within the Toronto and Region Conservation Authority, and to support a captive breeding program for the Eastern Loggerhead Shrike, an endangered predatory songbird. In total, about $2 million has been raised under this program through sales of the LCBO Envirobag and through generous contributions by LCBO suppliers.

At the start of fiscal 2006-07, the LCBO was set to announce a major environmental initiative with Banrock Station. The Australian winemaker committed to contributing $1.25 million over five years to help restore native Atlantic salmon to Ontario rivers and streams, which feed into Lake Ontario, and introduced the LCBO's first Australian wines in Tetra Paks. The LCBO will also contribute $250,000 over five years from its Natural Heritage Fund to support this project. Other partners include the Ontario Ministry of Natural Resources and Ontario Federation of Anglers and Hunters.

Our suppliers responded to our call for new product choices with creativity and enthusiasm and sales show that our customers are pleased with these convenient new products.

social responsibility | ...Employees challenged more than 1.7 million customers in fiscal 2005-06 because they appeared to be underage, intoxicated or were suspected of trying to buy beverage alcohol for a minor or intoxicated person...

Research tells us that a majority of Ontarians view the LCBO as a responsible retailer and a good corporate citizen. In our most recent customer satisfaction survey, prevention of sales to minors topped the list across the province when customers were asked what is most important to them. In fact three of the top 10 matters of importance related to responsible service: preventing sales to minors, preventing sales to intoxicated individuals and promoting responsible drinking.

LCBO employees share the same level of interest in social responsibility as our customers. The ability to prevent sales to minors and intoxicated adults ranked as the highest source of pride with staff when we conducted our most recent employee attitude survey. LCBO employees' care and vigilance at checkouts contributes daily to public and community safety and to the LCBO's reputation as a responsible retailer.

Challenge and refusal numbers climb

Employees challenged more than 1.7 million customers in fiscal 2005-06 because they appeared to be underage, intoxicated or were suspected of trying to buy beverage alcohol for a minor or intoxicated person. This was a 20 per cent increase from the 1.4 million challenged in 2004-05.

The vast majority challenged were asked for proof of age – 1,698,838 out of a total of 1,722,112 (98 per cent and an increase of 17 per cent); 90,682 were refused because they could not prove they were of legal drinking age, compared with 66,326 the previous year. Refusals for reasons of suspected intoxication and suspected third-party purchases amounted to 21,471 – down from 22,670 the previous year.

Overall, refusals for all reasons were more than 112,000, compared to less than 90,000 the previous year. The community expects a high level of social responsibility at the LCBO and these numbers show they are getting it.

BYID Card continues to grow

LCBO's BYID (Bring Your Identification) Card continues to grow in circulation with more than 36,600 cards issued to date. Last fiscal, more than 4,300 new security enhanced cards were issued. As one of the now five forms of proof of legal drinking age identification prescribed under Ontario's Liquor Licence Act, LCBO's BYID Card is especially useful for Ontarians who do not have an Ontario driver's licence or other form of prescribed ID.

New TV ad campaign set to launch

Since 1995, the LCBO has used TV, radio, print, cinema and billboard ads to bring social responsibility campaigns to Ontario communities. Research has shown that public recall of these ad campaigns is high and that most respondents who have seen the ads would think twice about drinking and driving – and feel their family and friends would too.

During the early part of fiscal 2006-07, the LCBO announced a new social responsibility advertising campaign in partnership with MADD Canada. The campaign – the eighth joint campaign with MADD Canada – consists of two related television commercials that provide workable solutions for the very real situations that people face at the end of an evening of socializing and drinking. Called *Lonely and Reunited*, the spots used evocative music and play on the relationship people have with their cars, telling viewers: "Any way you can stop a friend from drinking and driving is the right way."

Charities receive $680,000 from store fund-raising in 2005-06

Fund-raising at LCBO stores in 2005 resulted in more than $680,000 being raised for charities across Ontario.

Activities included a donation box program, invitations to customers to make a donation at the checkout and annual fund-raising campaigns at LCBO stores by the Royal Canadian Legion, Canadian Cancer Society and the Multiple Sclerosis Society of Canada.

United Way appeals in communities across the province raised $115,000 and MADD Canada benefited by $88,000, plus an additional $30,000 from sales of the LCBO's Summer Good Host Kit. The Hospital for Sick Children in Toronto received more than $47,000; the Children's Hospital of Chedoke McMaster, Hamilton, $14,000 and the Children's Hospital of Eastern Ontario in Ottawa and the Children's Hospital of Western Ontario in London nearly $7,000 each.

...Every product sold in LCBO stores must first be tasted, tested and certified by the LCBO's Quality Assurance laboratory. This means they are safe to consume, are authentic and meet standards...

Other major recipients were Variety Village – the Children's Charity ($16,000), the Juno Beach memorial in France to Canadians who took part in D-Day landings ($11,000) and the Lung Association ($11,000).

These figures do not include contributions in 2005 to the United Way from the annual LCBO United Way campaign ($355,000), Camp Oochigeas ($80,000), Friends of We Care ($150,000) and many local golf tournaments, barbecues, yard sales and raffles.

Quality Assurance continues to ensure products are safe to drink

Every product sold in LCBO stores must first be tasted, tested and certified by the LCBO's Quality Assurance laboratory. This means they are safe to consume, are authentic and meet standards set out in Canada's Food and Drugs Act and Consumer Packaging and Labelling Act and their related regulations.

The lab is world-renowned and meets the high standards set by the Geneva-based International Organization for Standardization. It is registered under ISO 9001:2000 as well as under ISO/IEC 17025, a designation specific to chemistry laboratories.

In fiscal 2005-06, the QA department conducted 388,239 tests on 16,253 products. As well, 5,189 products were tasted to ensure they met high standards set by the LCBO and, where applicable, the Vintners Quality Alliance Ontario (VQAO). QA staff also reviewed 3,335 labels and 9,204 shipping cartons.

Quality Assurance performed many other functions for the LCBO and its stakeholders in fiscal 2005-06:

- it supported the VQAO by conducting tastings, packaging reviews, laboratory analyses and quality assurance audits, and by helping members develop and adhere to the industry's technical standards
- it also provided services to some of the world's leading beverage alcohol manufacturers, suppliers and agents as well as cork and closure producers and universities and colleges.

beyond the numbers | Management discussion and analysis of operations

Highlights ($000)

Dividend to Government: 2004-05 → 2005-06

$1,115,000 → $1,200,000

7.6% change

Net Sales and Other Income: 2004-05 → 2005-06

$3,532,171 → $3,682,919

4.3% change

Canadian securities regulations require public companies to include a discussion of operating results in the annual report, along with annual financial statements. As a provincial government enterprise, LCBO is not subject to these regulations. However, we have included this discussion to increase understanding of our operations and ensure disclosure of our results to the widest possible audience. This section of the LCBO Annual Report explains the financial results for the past year and provides background for evaluating its performance.

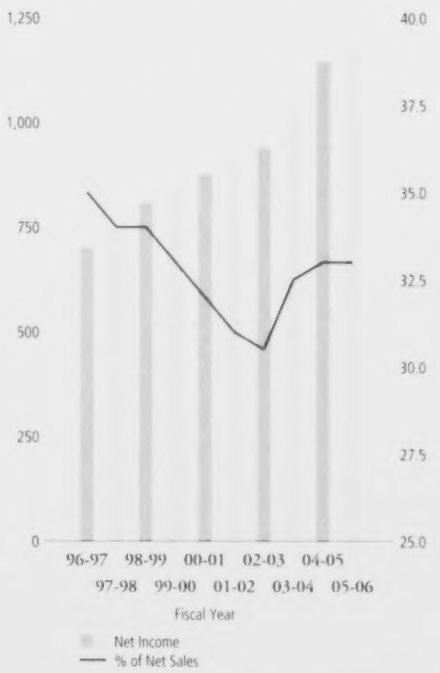
Net Income

The LCBO posted its highest net income ever in 2005-06, totalling $1.20 billion and representing a $57.5 million increase over the previous year. Net income as a percentage of net sales surpassed the previous year's ratio of 32.7 per cent, coming in at 32.9 per cent, and exceeded plan by 0.6 per cent due to enhanced margins and tight expense control.

The chart at right gives a 10-year history of LCBO net income and net income as a percentage of net sales.

Since 1996-97, LCBO net income has grown by 72 per cent or $503 million.

Net Income ($000,000) **and as a Percentage of Net Sales**



Dividend ($000,000)

beyond the numbers |

Operating Expenses: 2004-05 → 2005-06

$575,336 → $592,963

3.1% change

Net Income: 2004-05 → 2005-06

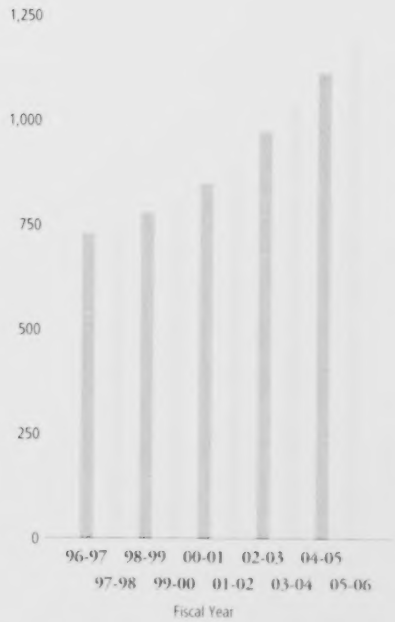
$1,146,810 → $1,204,344

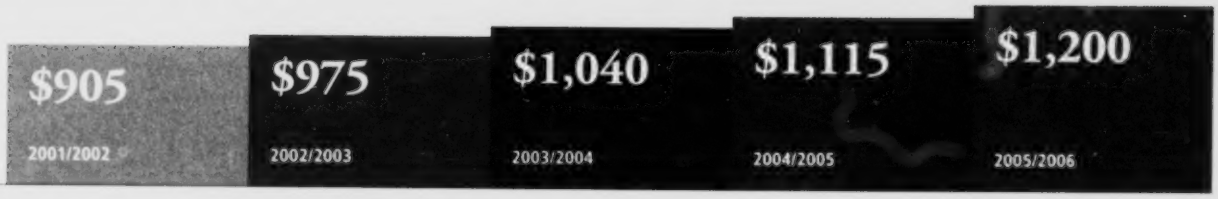
5.0% change

Dividend

We transferred a record $1.20 billion dividend to the provincial government in 2005-06, excluding all taxes. This is an $85 million increase over last year. It was the 12th straight year we have increased our dividend, our 11th straight record dividend and the third consecutive dividend of more than $1 billion.

Dividend ($000,000)





beyond the numbers |

Government revenue disbursement

The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to $342 million in 2005-06.

These tables show how LCBO profits are shared between various levels of government and the breakdown of $1 in net sales.

LCBO payments to government

Dividend	59.9%
Federal	22.3%
PST	17.1%
Municipal	0.7%

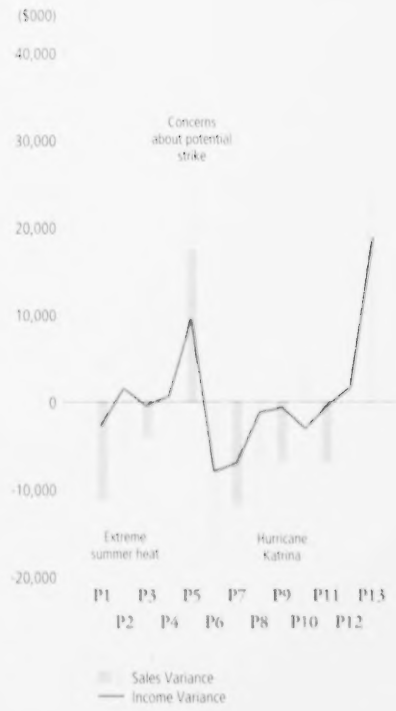
Breakdown of $1 in net sales

Product Cost	51.7%
Net Income	32.7%
Retail and Marketing	9.9%
Administration and Distribution	3.7%
Warehousing and Distribution	2.0%

LCBO's external environment

LCBO sales growth of 4.4 per cent in fiscal 2005-06 was slightly below the 4.7 per cent average growth rate for total retail sector sales in Ontario. However, after adjusting for the estimated $25 million in additional sales resulting from the labour dispute at the Société des alcools du Québec (SAQ) during fiscal 2004-05, LCBO sales growth exceeded the retail sector at 5.1 per cent. Economic conditions in Ontario were favourable to beverage alcohol sales, with unemployment rates falling to 6.6 per cent and economic growth holding at 2.7 per cent in 2005.

The chart above right shows LCBO sales and income fluctuations to plan during the year broken out by selling periods.



In Period 5, customers stocked up in anticipation of a possible LCBO labour disruption while Period 6 witnessed the counter-balancing effect of the stocking up combined with consumer confidence and gasoline price impacts due to Hurricane Katrina. Extreme heat during the summer months constrained demand for beverage alcohol; temperatures between 29-32 degrees Celsius (85-90 Fahrenheit) are optimal for beer and cooler sales.

Sales by region

While three of LCBO's four retail regions missed their budgeted growth rate for net sales in fiscal 2005-06, all regions improved over 2004-05 levels. Particularly impressive was Eastern Region's performance considering the previous year's sales included a substantial lift resulting from the SAQ labour dispute.

The following table shows how net sales in each region fared compared to the previous year and to plan.

Sales by region

	2005-06 ($000)	Change from 2004-05	Variance from plan
Northern	442,878	3.6%	-0.9%
Eastern	749,831	2.3%	0.4%
Central	1,127,163	5.0%	-0.8%
Western	853,828	4.4%	-0.9%

beyond the numbers

Comparable store sales

"Comparable stores" are defined as stores that have been open in their present location for more than two years. "Non-comparable stores" include stores open less than two years and closed stores. In 2005-06, non-comparable stores experienced a 17.7 per cent net sales increase over the year before, almost six times the three per cent growth posted by comparable stores.

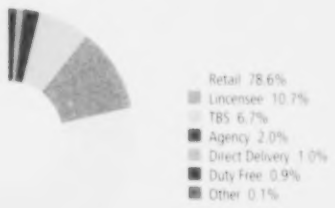
Sales by channel

LCBO retail sales, which we define as sales to home consumers, grew by 3.9 per cent over last year to $2.87 billion. Retail sales as a share of total LCBO sales decreased slightly from 78.9 per cent to 78.6 per cent, back to the 2003-04 share level. In 2004-05, sales in the retail channel were boosted by the SAQ labour dispute while the licensee and wholesale sales to The Beer Store (TBS) channels were down due to the National Hockey League lockout.

LCBO wholesale sales to TBS were up 8.3 per cent during the year. Sales to TBS as a percentage of total LCBO sales increased from 6.5 per cent to 6.7 per cent primarily due to the increased popularity of imported beers sold through TBS.

Licensee sales grew by 5.5 per cent in 2005-06, from $371 million to $391 million. The licensee channel, which comprises licensed hotel and restaurant sales, has now returned to pre-SARS levels ($381 million in 2002-03). Sales through this channel were bolstered by about $4 million due to the introduction of the new six per cent licensee mark-up on wine and spirits in Period 11 to replace the previously established gallonage fee of 12 per cent while the previous gallonage fee of $2.64 a hectolitre on beer was reduced to zero. The collected fee was previously remitted to the Alcohol and Gaming Commission of Ontario (AGCO).

Breakdown of LCBO sales by channel



LCBO sales to duty-free stores at land border points were down 2.3 per cent from last year primarily due to fewer trips to Ontario by American visitors. Contributing factors to this decline were increases in the price of gasoline and the weakness of the U.S. dollar.

Agency sales grew by 6.9 per cent in 2005-06 to a total of $73 million despite no new openings. Agency stores now account for 2.0 per cent of LCBO net sales.

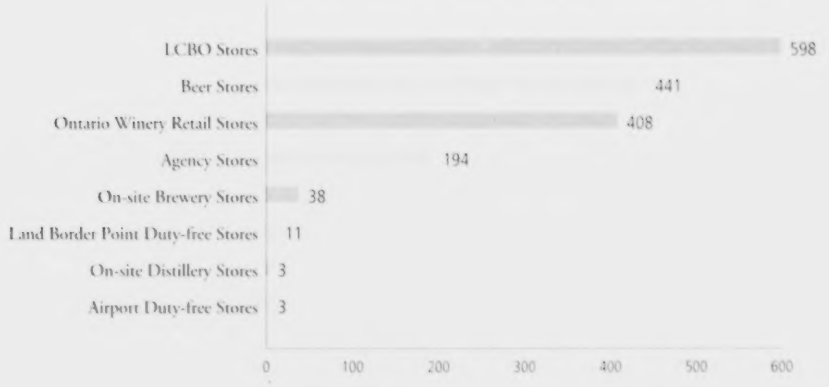
The Ontario winery direct delivery program, which enables wineries to deliver their products directly to licensees, continued to grow, increasing by 6.1 per cent in terms of volume and 8.4 per cent in terms of net sales. In 2005-06, direct delivery sales represented 16.1 per cent of the total value of the licensee market for wine, compared to 15.8 per cent last year.

LCBO in the shared marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including The Beer Store (TBS), owned by Molson-Coors, Labatt (InBev SA) and Sleeman; Ontario winery retail stores (WRS); on-site brewery stores; agency stores; duty-free operators and on-site distillery stores. As of March 31, 2006, there were 1,696 outlets selling alcohol in Ontario.

Here is what the market looked like at March 31, 2006:

Ontario's alcohol marketplace by number of outlets



Note: When the LCBO's 598 stores and Ontario's 194 agency stores are combined, the total market share is approximately 46.7 per cent.

beyond the numbers |

Changes in market share

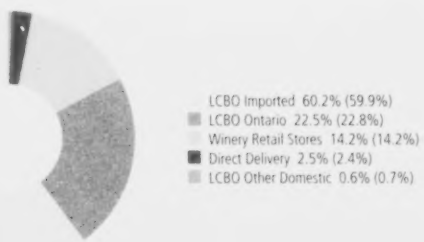
The total Ontario beverage alcohol marketplace, which includes LCBO, TBS, WRS, as well as other legal, homemade, de-alcoholized beer and illegal channels, amounted to an estimated $8.0 billion in gross sales in 2005-06. The LCBO's market share by value increased from 48.6 per cent in 2004-05 to 50.5 per cent in 2005-06.

In terms of volume sales, the Ontario wine market increased by 4.0 per cent in 2005-06. Imported wine now holds a 60.2 per cent share of wines sold by the LCBO, up from 59.9 per cent the previous year. Ontario and other domestic wine sales, sold though the LCBO and through winery retail stores as well as delivered directly by Ontario wineries, declined to 39.2 per cent from 39.4 per cent. The continued growth in New World wine sales and the short crop challenges facing Ontario vintners due to weak harvests contributed to the increase in imported wine share.

Ontario direct delivery wine sales increased in terms of market share, from 2.4 per cent to 2.5 per cent, a continuing effect of the 2003 regulatory change that allows wineries to deliver products directly to licensees.

Wine volume market share, 2005-06

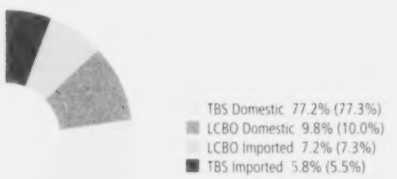
(2004-05 share in brackets)



Beer sales in Ontario grew by 5.8 per cent by volume in 2005-06. LCBO beer sales grew by 4.5 per cent, excluding sales to TBS, compared to 6.1 per cent for TBS. As a result, LCBO's volume market share decreased to 17.0 per cent in 2005-06 from 17.2 per cent a year earlier, while TBS's volume market share rose from 82.8 per cent to 83.0 per cent during the same period. Consumers' tastes for imported products continue to drive beer sales, though TBS sales have also been bolstered by a move to value-price beer purchases in the 24-bottles-per-case format.

Beer volume market share, 2005-06

(2004-05 shares in brackets)



Operating results

Gross margin

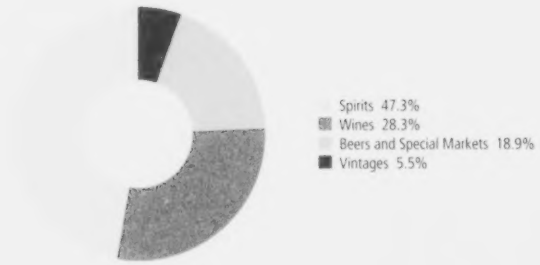
Gross margin was 4.6 per cent higher than last year, up to $1.77 billion in 2005-06 from $1.70 billion in 2004-05, and surpassed plan by 0.3 per cent. Gross margin expressed as a percentage of net sales came in at 48.5 per cent, better than plan of 48.1 per cent and slightly above last year's figure of 48.4 per cent. LCBO customers continuing to trade up to premium products and the replacement of the gallonage fee with the new licensee mark-up in January 2006 offset margin erosion due to higher sales of wines and beer. They have a lower margin than spirits.

Spirits was the largest contributor to the increase in the gross margin, accounting for 42.9 per cent of the increase, followed by wine at 42.3 per cent. Beer accounted for 15.0 per cent while non-liquor products made up the remaining fraction. LCBO receives the highest margin per dollar of net sales on its spirits products at 56.6 cents per net sales dollar, while wine and beer margins are 48.8 cents and 36.1 cents, respectively. (Note: These margin numbers include sales through VINTAGES and therefore may not agree with business unit margins in the Product Trends sections of this report.)

Spirits continues to account for the largest proportion of gross margin at over 47 per cent, which is higher than its sales share owing to the higher margins on spirits products. Wines, Beers and Special Markets, and VINTAGES represented approximately 28 per cent, 19 per cent and 6 per cent of margin, respectively.

beyond the numbers |

Share of Margin by Buyer, 2005-06



Note: Excludes Private Ordering

The trend of the last several years to premium products continued in 2005-06, which helped mitigate the downward movement in LCBO gross margin. For spirits, products priced higher than $30 for a 750 mL bottle increased by 9.7 per cent during the year; this compared to an increase of 0.2 for other spirits products. Premium wine, defined as having a price of $15 or more, increased by 7.6 per cent in 2005-06, compared to 3.5 per cent for all other wines. The trend toward premium products extends to beer as well, but this has no effect on LCBO margins because beer mark-ups are flat: they do not change along with the product's value, as is the case with wine and spirits.

Premium product sales grow at a faster rate

(year over year volume growth)

Beer sales as a share of total LCBO sales volume increased from 48.4 per cent to 49.2 per cent, while wine and spirits decreased 0.4 per cent each, to 28.3 per cent and 22.5 per cent, respectively. However, improvement in sales of higher-margin wine and spirits products helped offset much of the impact of the change on LCBO's margin.

Expenses

Expense control improved in 2005-06, as LCBO's expense-to-net-sales ratio decreased from 16.4 per cent to 16.2 per cent. Overall expenses were $593 million compared to $575 million the previous year. The increase is primarily due to wage increases from collective bargaining and salary increases from a cost of living adjustment.

Head office expenses were 5.7 per cent below budget, growing 2.4 per cent from the previous year. Warehouse expenses increased by 5.9 per cent to $48 million, 2.3 per cent above plan, largely due to salaries and benefits, breakages and increased utilities cost. Store expenses grew by 3.2 per cent to $334 million, 0.1 per cent over plan, due to salaries and benefits and expenses such as real estate costs and utilities charges.

Change in share of LCBO sales volume

(year over year volume growth)

beyond the numbers |

Inventory

Total inventory turns improved during the year, increasing to 7.6 from 7.2 the previous year and better than the planned turnover of 7.5. Beer inventory turns increased from 14.5 to 16.4 and spirits turns rose from 8.3 to 8.4, while wine turns fell from 6.3 to 6.1. VINTAGES inventory turns increased from 2.4 to 3.1 due to improved efficiency of product movement through LCBO warehouses.

Wholesale inventory turns including VINTAGES rose to 11.9 in 2005-06, up from 11.2 last year and exceeding the planned figure of 11.7. Retail inventory turns were 14.8 in 2005-06, better than 14.3 in 2004-05 and the 14.6 plan.

Total inventory turns

Financial and operating ratios

Income statement ratios in 2005-06 compared favourably to the previous year.

Administrative expenses stayed fixed at 1.5 per cent of net sales, the same as the previous year and plan. Operating expenses also improved from 2004-05, from 12.1 per cent to the planned amount of 12.0 per cent. These improvements are the result of higher net sales and effective expense control during the year.

Gross margin as a percentage of net sales exceeded the planned ratio of 48.1 per cent and our 2004-05 ratio of 48.4 per cent, coming in at 48.5 per cent in 2005-06. This was due to an increase in lower-margin beer products, but was offset by the continued sales growth in higher-margin spirits and wine products.

Productivity ratios

To help track expenses and identify where improvements are occurring or are needed, the LCBO sets targets for many productivity ratios each year. For instance, the store expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, store rents and other expenses. A declining store expenses-to-sales ratio means that employees are becoming more productive.

For the retail channel, store salaries as a percentage of net sales remained constant at 7.0 per cent in 2005-06 and came in slightly weaker than the plan of 6.9 per cent. Likewise, store salaries per unit sold remained unchanged from the 2004-05 value of $0.76, but missed plan of $0.75.

Store expenses as a percentage of sales were 10.3 per cent, better than the previous year but above the planned proportion of 10.2 per cent. However, store expenses per unit sold improved from 2004-05 and met plan at $1.12.

Sales per customer have improved significantly over the past five years, rising from $28.10 in 2001-02 to $31.57 in 2005-06, which surpassed the target of $31.29. These results highlight the trend to higher quality products. Retail space rationalization has helped the sales per square foot figure increase by 4.0 per cent over the last five years, rising to $1,816, but down from $1,859 last year. This decrease was due to a recalculation of selling space in the store system by Store Development. Unfortunately, historical numbers could not be restated due to a lack of appropriate information.

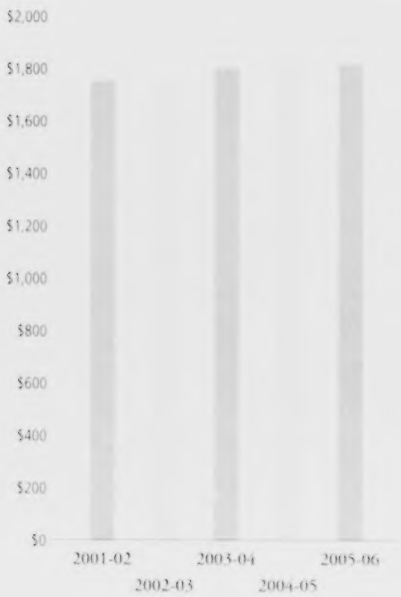
Retail – Financial and Operating Highlights

	01-02	02-03	03-04	04-05	05-06
Store salary to sales	7.3%	7.3%	7.1%	7.0%	7.0%
Store expenses as percentage of sales	10.3%	10.4%	10.3%	10.4%	10.3%
Store salary per unit sold	$ 0.80	$ 0.77	$ 0.78	$ 0.76	$ 0.76
Store expenses per unit sold	$ 1.12	$ 1.10	$ 1.13	$ 1.13	$ 1.12
Unit sales per hour	28.7	31.5	32.3	33.5	34.9
Sales per customer	$ 28.10	$ 28.51	$ 29.38	$ 30.80	$ 31.57
Sales per square foot	$ 1,752	$ 1,755	$ 1,800	$ 1,859	$ 1,816

beyond the numbers |

Average sales per customer

Average sales per square foot



For the logistics channel, both warehouse cost per case ratios (by total expenses and salaries) rose during the year. Compared to 2004-05, warehouse salary cost per case increased by $0.03 to $0.93 while warehouse total cost per case rose by $0.05 to $1.16. Distribution cases per hour improved from 62 last year to 64 in 2005-06, better than the target of 63.

Capital expenditures

As part of our five-year strategic plan to help customers *Discover the World* of beverage alcohol, most of the capital budget was again allocated to upgrading more retail stores to current corporate standards.

Logistics – Financial and Operating Highlights

	01-02	02-03	03-04	04-05	05-06
Warehouse salary cost per case	$ 0.77	$ 0.83	$ 0.82	$ 0.90	$ 0.93
Warehouse cost per case	$ 1.00	$ 1.10	$ 1.03	$ 1.11	$ 1.16
Logistics cases per hour	64	66	64	62	64
Logistics cost per case handled	$ 0.59	$ 0.64	$ 0.62	$ 0.66	$ 0.68
Freight expense per case	$ 1.11	$ 1.26	$ 1.40	$ 1.52	$ 1.67
Inbound freight as percentage of sales	1.9%	2.2%	2.5%	2.5%	2.7%
Outbound frieght as percentage of sales	0.6%	0.7%	0.7%	0.7%	0.7%

Capital Expenditures

($000)	01-02	02-03	03-04	04-05	05-06
Retail	30,813	45,497	31,896	27,981	39,650
Retail Store Development and Real Estate	644	1,072	351	1,639	1,228
Information Technology	14,259	12,758	6,877	6,917	7,980
Logistics	3,493	11,848	10,158	6,487	2,464
Marketing Programs	1,730	1,565	1,130	1,311	1,068
Other Administrative Divisions	4,795	2,321	3,022	3,128	2,146
Total Capital Expenditures	55,735	75,061	53,434	47,465	54,535

beyond the numbers |

looking ahead ...Net sales are forecast at $3.8 billion, 4.9 per cent higher than 2005-06. Gross margin is forecast to improve by 4.8 per cent to just under $1.9 billion.

...The LCBO's dividend to the government of Ontario is forecast to increase for a 12th straight year to a new high of $1.255 billion, $55 million higher than last year.

...Net income is forecast to grow to $1.257 billion, an increase of $53 million.

Looking ahead

The 2006-07 fiscal year is expected to be one of continued improvement. Net sales are forecast at $3.8 billion, 4.9 per cent higher than 2005-06. Gross margin is forecast to improve by 4.8 per cent to just under $1.9 billion.

Gross margin as a percentage of net sales is forecast to be 48.4 per cent, a slight decrease over the 2005-06 rate of 48.5 per cent, due to ongoing changes in product mix.

Operating income is forecast to rise by 4.7 per cent to $1.20 billion. This will be achieved through planned sales initiatives and continued expense control.

Ongoing inventory reduction programs and efficiency gains in the flow of product through the LCBO warehouse and retail store systems should help increase inventory turns. Retail inventory turns are forecast to be 14.0 per year and warehouse turns are expected to rise 1.0 turns to 12.9 per year.

The LCBO's dividend to the government of Ontario is forecast to increase for a 12th straight year to a new high of $1.255 billion, $55 million higher than last year.

Net income is forecast to grow to $1.257 billion, an increase of $53 million.

responsibility for financial reporting

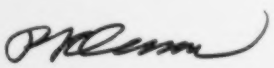
The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily invoves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 27, 2006.

Management is responsible for the integrity of the financal statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that relable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

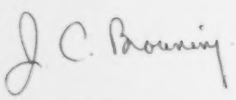
The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General of Ontario to satisfy itself that each group has properly discharged its respective responsibility.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report (page 32) outlines the scope of the Auditor's examination and opinion.

On behalf of management:



PHILIP J. OLSSON
Acting Chair and Chief Executive Officer



J. ALEX BROWNING
Senior Vice President, Finance & Administration, and Chief Financial Officer

June 27, 2006

auditor's report

To the Liquor Control Board of Ontario and to the Minister of Public Infrastructure Renewal

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2006 and the statements of income and retained income and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 27, 2006

JIM McCARTER, CA
Auditor General

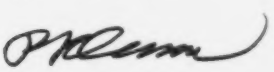
balance sheet | As at March 31, 2006

	2006	2005
Assets ($000)		
Current		
Cash and cash equivalents	108,530	106,273
Accounts receivable, trade and others	20,520	23,700
Inventories	285,817	278,267
Prepaid expenses	13,038	11,371
	427,905	419,611
Long-term		
Capital Assets (Note 5)	228,702	223,709
	656,607	643,320
Liabilities and Retained Income		
Current		
Accounts payable and accrued liabilities	320,193	315,241
Current portion of accrued benefit obligation (Note 3)	5,323	4,981
	325,516	320,222
Long-term		
Accrued benefit obligation (Note 3)	41,111	37,462
Retained income	289,980	285,636
	656,607	643,320

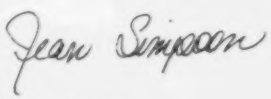
Commitments and Contingencies (Notes 6 and 8)

See accompanying notes to financial statements.

Approved by:



PHILIP J. OLSSON
Acting Chair and Chief Executive Officer



JEAN SIMPSON
Board Member, Chair, Audit and Governance Review Committee

statement of income and retained income | Year Ended March 31, 2006

($000)	2006	2005
Sales and other income	3,682,919	3,532,171
Cost and expenses		
Cost of sales	1,885,612	1,810,025
Retail stores and marketing	400,443	387,410
Warehousing and distribution	76,072	71,131
Administration	67,349	66,092
Amortization	49,099	50,703
	2,478,575	2,385,361
Net income for the year	1,204,344	1,146,810
Retained income, beginning of year	285,636	253,826
	1,489,980	1,400,636
Deduct		
Dividend paid to the Province of Ontario	1,195,000	1,110,000
Payment to municipalities on behalf of the Province of Ontario (Note 9)	5,000	5,000
	1,200,000	1,115,000
Retained income, end of year	289,980	285,636

See accompanying notes to financial statements.

statement of cash flows | Year Ended March 31, 2006

($000)	2006	2005
Cash provided from operations		
Net income	1,204,344	1,146,810
Amortization	49,099	50,703
Loss (Gain) on sale of capital assets	339	(2,114)
	1,253,782	1,195,399
Increase (Decrease) in non-cash items		
Working capital	(1,085)	7,642
Accrued benefit obligation	3,991	2,302
	1,256,688	1,205,343
Cash used for investment activities		
Purchase of capital assets	(54,535)	(47,465)
Proceeds from sale of capital assets	104	2,671
	(54,431)	(44,794)
Cash used for financing activities		
Dividend paid to the Province of Ontario	(1,195,000)	(1,110,000)
Payment to municipalities on behalf of the Province of Ontario	(5,000)	(5,000)
	(1,200,000)	(1,115,000)
Increase in cash during the year	2,257	45,549
Cash and cash equivalents, beginning of year	106,273	60,724
Cash and cash equivalents, end of year	108,530	106,273

See accompanying notes to financial statements.

notes to financial statements | March 31, 2006

1. Nature of the Corporation

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

2. Significant Accounting Policies

(A) Basis of Accounting

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(B) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

(C) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

(D) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Leasehold Improvements	5 years or 10 years
Computer Equipment	3 years or 4 years

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

(E) Revenue Recognition

Revenue is recognized when the sale of products is made to customers.

(F) Expense Recognition

Expenses are recognized as incurred, on an accrual basis, in the period to which they relate.

(G) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Accrued Benefit Obligation

The accrued benefit obligation includes accruals for employee termination payments and unfunded workers compensation obligation.

In fiscal 2006, the cost of these employee future benefits was $10.9 million (2005 – $9.7 million) and is included in Cost and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2006 is $46.4 million (2005 – $42.4 million) of which $5.3 million (2005 – $5 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the Statement of Income and Retained Income.

4. Pension Plan

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are multi-employer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution pension plans as the Board has insufficient information to apply defined benefit plan accounting. The expense represents the Board's contributions to the plans during the year.

In fiscal 2006, the expense was $15.3 million (2005 – $14.7 million) and is included in Cost and expenses in the Statement of Income and Retained Income.

notes to financial statements

5. Capital Assets

	2006			2005
($000)	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	13,223	–	13,223	13,223
Buildings	326,884	223,215	103,669	102,584
Furniture and fixtures	81,194	47,797	33,397	24,989
Leasehold improvements	207,172	152,741	54,431	61,477
Computer equipment	103,224	79,242	23,982	21,436
	731,697	502,995	228,702	223,709

6. Lease Commitments

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

	($000)
2007	38,723
2008	37,049
2009	33,532
2010	28,799
2011	26,468
Thereafter	200,487
	365,058

7. Financial Instruments

The Board's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The carrying values of these instruments approximate fair value due to the short-term maturities of these instruments.

In management's opinion, the Board is not exposed to significant interest, foreign exchange or credit risks arising from these financial instruments. To manage foreign exchange risk associated with its purchases from foreign suppliers, the Board enters into foreign exchange forward contracts, which are commitments to purchase foreign currencies at a specified date in the future at a fixed rate.

As at March 31, 2006 the Board had no (2005 – $2.5 million) foreign exchange forward contracts outstanding.

Credit risk is the risk that a party to a foreign exchange forward contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risks by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

8. Contingencies

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

9. Payment to Municipalities

Consistent with prior years, in fiscal 2006, in accordance with Section 5(2) of the *Liquor Control Act, 1990*, the Board was directed by Cabinet to contribute $5 million (2005 – $5 million) to assist municipalities with their glass recycling costs. In subsequent years, the LCBO's contribution will be determined by methods to be established under Section 30(1) of the *Waste Diversion Act, 2002*.

financial overview | KEY OPERATIONAL AND FINANCIAL STATISTICS

Operations

	2002	2003	2004	2005	2006
Number of LCBO Stores	599	597	598	597	598
Number of Permanent Employees	3,225	3,362	3,320	3,352	3,304
Number of Regular Products Listed	3,487	3,476	3,449	3,349	3,556

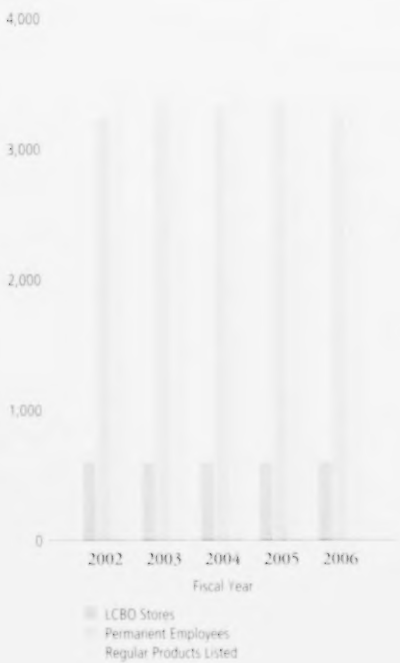
Financial (value in $000)

	2002	2003	2004	2005	2006
Net Sales and Other Income	2,939,563	3,119,240	3,320,681	3,532,171	3,682,919
% change/previous year	7.48%	6.11%	6.46%	6.37%	4.27%
Operating Expenses	489,633	525,959	548,778	575,336	592,963
As a % of Net Sales & Other Income	16.66%	16.86%	16.53%	16.29%	16.10%
Net Income	920,912	939,542	1,045,428	1,146,810	1,204,344
As a % of Net Sales & Other Income	31.33%	30.12%	31.48%	32.47%	32.70%

Breakdown of Operating Expenses (values in $000)

	2002	2003	2004	2005	2006
Salaries and Benefits	272,594	291,762	305,664	325,369	337,969
Depreciation	44,260	47,602	49,917	50,703	49,099
Other Expenses	172,779	186,595	193,197	199,264	205,895
Total Operating Expenses	489,633	525,959	548,778	575,336	592,963

Key Indicators: 2002-2006



Financial Indicators: 2002-2006

(values in $000)

Operating Expenses: 2002-2006

(values in $000)

financial overview | REVENUE PAYMENTS (values in $000)

Treasurer of Ontario

	2002	2003	2004	2005	2006
Remitted by the Liquor Control Board:					
on account of profits	905,000	975,000	1,040,000	1,115,000	1,200,000
Remitted by the Liquor Control Board:					
Ontario retail sales tax on sales of liquor	275,072	288,884	308,134	328,753	341,773
Remitted by the Alcohol and Gaming Commission:					
on account of licence fees and permits	530,799	526,650	487,589	488,988	516,444
Remitted by others:					
Ontario retail sales tax on sales through					
The Beer Store and Ontario winery retail stores	186,308	194,320	196,733	197,890	213,264
Ontario retail sales tax on sales through agency stores	4,027	5,596	7,582	9,076	9,697
Total	1,901,206	1,990,449	2,040,037	2,139,707	2,281,177

Receiver General for Canada

	2002	2003	2004	2005	2006
Remitted by the Liquor Control Board:					
Excise taxes and Customs duties	284,521	294,203	307,366	308,514	321,350
Goods and Services Tax	84,885	97,459	103,464	119,444	124,978
Remitted by others:					
Excise taxes, GST and other duties/taxes	355,868	303,508	347,231	329,810	360,779
Goods and Services Tax remitted on sales through agency stores	2,349	3,264	4,423	5,294	5,656
Total	727,623	698,434	762,484	763,062	812,763

Ontario Municipalities

	2002	2003	2004	2005	2006
Remitted by the Liquor Control Board:					
Realty taxes*	12,003	11,253	12,280	13,678	14,848
Total Revenue Payments	2,640,832	2,700,136	2,814,801	2,916,447	3,108,788

*Note: Includes property taxes on leased properties.

financial overview | VOLUME SALES (volume in 000 litres)

Product Type	2002	2003	2004	2005	2006	% change
Domestic Spirits	33,897	33,570	33,704	33,754	34,314	1.7%
Imported Spirits	19,085	19,557	20,301	21,191	21,824	3.0%
Total Spirits	52,982	53,127	54,005	54,944	56,138	2.2%
Domestic Wine	28,445	29,912	30,964	32,528	33,490	3.0%
Imported Wine	63,076	66,504	70,062	75,150	78,528	4.5%
Total Wine	91,521	96,416	101,025	107,678	112,018	4.0%
Domestic Beer	75,045	79,289	84,950	82,273	81,409	-1.0%
Imported Beer	83,212	91 909	98,352	99,228	107,422	8.3%
Total Beer	158,258	171,198	183,302	181,501	188,831	4.0%
Domestic Spirit Coolers	25,791	29,076	26,910	26,569	26,019	-2.1%
Imported Spirit Coolers	1,781	3,877	5,333	4,710	4,585	-2.6%
Domestic Wine Coolers	549	426	233	136	113	-17.0%
Imported Wine Coolers	263	228	253	236	328	39.4%
Domestic Beer Coolers	363	108	168	581	605	4.1%
Imported Beer Coolers	125	332	304	51	96	89.4%
Total Coolers	28,872	34,047	33,200	32,282	31,746	-1.7%
Total Domestic	164,091	172,381	176,930	175,840	175,949	0.1%
Total Imported	167,542	182,407	194,603	200,565	212,784	6.1%
Total	331,633	354,787	371,532	376,406	388,733	3.3%

	2002	2003	2004	2005	2006	
Sales by Ontario Winery Stores	16,235	16,720	17,327	17,920	18,635	4.0%
Sales by The Beer Store and On-site Stores	654,017	656,093	660,077	651,593	680,843	4.5%

Note: The 2006 figures for sales by The Beer Store (TBS) and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication. LCBO beer sales figures include LCBO sales to TBS. Of LCBO's total beer sales litres, 49,300,437 were sales to TBS. Prior year figures have been restated.

financial overview | SHARE OF TOTAL SALES

2005-06	Litres (000)	% of Total
Spirits	56,138	14%
Wine	112,018	29%
Beer	188,831	49%
Coolers	31,746	8%
	388,733	100%

financial overview | VALUE SALES (values in $000)

Product Type	2002	2003	2004	2005	2006	% change
Domestic Spirits	764,465	761,892	781,353	809,302	827,310	2.2%
Imported Spirits	499,645	516,510	541,882	582,440	613,977	5.4%
Total Spirits	1,264,110	1,278,402	1,323,235	1,391,741	1,441,287	3.6%
Domestic Wine	231,411	245,972	263,396	284,158	297,185	4.6%
Imported Wine	721,127	780,390	859,107	945,402	1,005,253	6.3%
Total Wine	952,538	1,026,362	1,122,502	1,229,560	1,302,438	5.9%
Domestic Beer	254,271	274,262	303,662	301,607	297,346	-1.4%
Imported Beer	296,752	340,900	372,231	403,456	444,258	10.1%
Total Beer	551,023	615,163	675,892	705,063	741,604	5.2%
Domestic Spirit Coolers	125,018	141,747	133,457	136,221	133,721	-1.8%
Imported Spirit Coolers	10,136	21,083	29,151	26,968	27,524	2.1%
Domestic Wine Coolers	2,147	1,617	914	552	470	-14.8%
Imported Wine Coolers	1,442	1,261	1,402	1,309	1,915	46.3%
Domestic Beer Coolers	1,203	421	826	2,762	2,876	4.1%
Imported Beer Coolers	537	1,547	1,201	213	400	87.7%
Total Coolers	140,483	167,675	166,951	168,024	166,905	-0.7%
Total Domestic	1,378,516	1,425,911	1,483,607	1,534,600	1,558,908	1.6%
Total Imported	1,529,639	1,661,691	1,804,974	1,959,788	2,093,327	6.8%
Non Liquor and Other	12,141	10,087	9,316	10,995	7,201	-34.5%
Total	2,920,296	3,097,690	3,297,897	3,505,383	3,659,436	4.4%

	2002	2003	2004	2005	2006	
Sales by Ontario Winery Stores	137,994	146,502	153,621	164,153	175,170	6.7%
Sales by The Beer Store and On-site Stores	2,181,920	2,254,756	2,311,230	2,312,479	2,553,790	10.4%

Note: Value sales listed above for the LCBO and Ontario Winery Stores consist of net sales. Sales values for The Beer Store (TBS) consist of net sales plus GST. Category totals produced here include sales through VINTAGES and the LCBO Private Ordering program, and therefore do not match the totals found in the Product Trends sections of this Annual Report. LCBO beer sales figures include LCBO sales to TBS. Of LCBO's total beer sales, $209,527,009 were sales to TBS. Prior year figures have been restated.

financial overview | SHARE OF TOTAL SALES (values in $000)

2005-06	($000)	% of Total
Spirits	1,441,287	39%
Wine	1,302,438	36%
Beer	741,604	20%
Coolers	166,905	5%
	3,652,235	100%

financial overview | PRODUCT LISTINGS

	2002	2003	2004	2005	2006
Domestic					
Spirits	486	460	472	430	442
Wine	481	469	432	434	447
Beer	426	444	473	433	494
Imported					
Spirits	675	652	691	680	738
Wine	1,163	1,187	1,124	1,143	1,160
Beer	256	264	257	229	275
Total Regular Listings	3,487	3,476	3,449	3,349	3,556
Vintages Wines and Spirits	2,858	3,127	4,250	4,464	5,953
Duty-Free Listings	224	240	221	229	234
Consignment Warehouse and Private Stock	5,444	6,813	7,286	8,204	9,483
Total Product Listings	12,013	13,656	15,206	16,246	19,226

Note: Product listing figures for Consignment Warehouse and Private Stock are estimated based on invoices produced by Specialty Services. The total does not include products discontinued during the fiscal year.

financial overview | LCBO SALES CHANNEL SUMMARY (values in $000)

	2002	2003	2004	2005	2006
LCBO Total Sales	3,417,729	3,622,049	3,857,394	4,101,684	4,284,222
The Beer Store Total Sales	2,522,993	2,607,077	2,638,488	2,639,319	2,517,856
Winery Retail Stores	162,539	174,284	182,349	195,280	208,452
Other Channels					
Legal	1,017,104	957,073	667,687	702,261	641,091
Homemade	48,013	50,852	148,163	157,301	153,239
De-alcoholized Beer	20,191	19,125	20,503	17,293	16,070
Illegal	432,435	455,529	442,971	523,572	550,219
Grand Total	7,621,004	7,885,989	7,957,555	8,336,711	8,371,150

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and The Beer Store (TBS) figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the charts below.

The methodology used to estimate certain categories under Other Channels were revised in 2004. Prior year figures have not been restated. Sales values reported under Other Channels are estimated using the average retail price for spirits, wine and beer sold under the LCBO, WRS and TBS respectively.

financial overview | SHARE OF ONTARIO BEVERAGE MARKET (2004-05 Share in Brackets)

LCBO	51.2% (49.2%)
The Beer Store	30.1% (31.7%)
Other Legal	9.7% (10.5%)
Illegal	6.6% (6.3%)
Winery Retail Stores	2.5% (2.3%)

financial overview | AVERAGE LCBO NET SALES PER LITRE (prices excludes GST and PST)

Product Type	2002	2003	2004	2005	2006
Spirits	$ 23.86	$ 24.06	$ 24.50	$ 25.33	$ 25.67
Wine	$ 10.41	$ 10.65	$ 11.11	$ 11.42	$ 11.63
Beer	$ 3.48	$ 3.59	$ 3.69	$ 3.88	$ 3.93
Average Transaction Per Customer	$ 31.05	$ 31.90	$ 32.97	$ 34.52	$ 35.55

Note: Includes Coolers

financial overview | REVENUE DISTRIBUTION

	Domestic Spirits	Domestic Wine	Domestic Beer
Supplier	19%	40%	41%
Federal Government	21%	10%	12%
Provincial Government	60%	50%	40%
Deposit			7%

Average LCBO Net Sales Per Litre: 2002-2006

financial overview | LCBO SALES VOLUME BY CATEGORY 2005-06

The tables below show the share of volume sales held by various segments within major product categories.

	2001-02	2002-03	2003-04	2004-05	2005-06
Canadian Spirits					
Canadian Whisky	19.0%	17.4%	17.6%	17.6%	17.4%
Canadian Rum	9.3%	8.6%	8.7%	8.7%	8.8%
Canadian Vodka	9.4%	8.9%	9.1%	9.1%	9.7%
Canadian Liqueur	1.8%	1.9%	2.1%	2.3%	2.4%
Spirit Coolers	32.1%	33.9%	31.3%	30.9%	30.1%
Canadian Dry Gin	1.2%	1.0%	0.9%	0.9%	0.8%
Other	1.4%	1.2%	0.8%	0.6%	0.6%
Imported Spirits					
Scotch	4.7%	4.4%	4.5%	4.6%	4.5%
Liqueur	4.0%	3.7%	3.7%	3.6%	3.5%
Miscellaneous Liquors	3.6%	3.5%	3.2%	3.4%	3.4%
Vodka	4.0%	4.1%	4.3%	4.8%	5.0%
French Brandy	2.1%	2.0%	2.1%	2.1%	2.1%
Spirit Coolers	2.2%	4.5%	6.2%	5.5%	5.3%
Other	5.2%	4.9%	5.7%	6.0%	6.4%
Total Spirits (000 litres)	80,363	85,856	86,062	86,035	86,527
Canadian Wines					
White Table	15.2%	14.9%	14.9%	14.6%	14.5%
Red Table	8.2%	8.5%	9.0%	9.2%	9.1%
Rose Table	0.8%	0.9%	1.0%	1.0%	1.0%
7% Sparkling	1.7%	1.6%	1.5%	1.4%	1.3%
Fortified	1.7%	1.6%	1.5%	1.5%	1.3%
Wine Coolers	0.6%	0.5%	0.2%	0.1%	0.1%
Other	2.6%	2.0%	1.6%	1.3%	1.2%
Imported Wines					
White Table	25.1%	24.4%	23.7%	22.9%	22.9%
Red Table	32.8%	34.3%	35.7%	37.6%	38.3%
Rose Table	2.5%	2.3%	2.0%	1.7%	1.6%
Sparkling	2.4%	2.4%	2.3%	2.2%	2.2%
Fortified	2.1%	2.0%	1.9%	1.8%	1.6%
Wine Coolers	0.3%	0.2%	0.3%	0.2%	0.3%
Other	4.2%	4.5%	4.9%	4.7%	4.8%
Total Wine (000 litres)	88,809	91,608	96,342	102,077	105,724
Canadian Beer					
Ontario Beer	44.0%	41.7%	40.8%	42.3%	42.7%
Other Canadian Beer	6.4%	7.2%	8.2%	5.6%	3.0%
Imported Beer					
U.S. Beer	12.5%	11.6%	9.8%	8.9%	8.8%
Other Imported Beer	37.1%	39.4%	41.1%	43.1%	45.4%
Sake	0.1%	0.1%	0.1%	0.1%	0.1%
Total Beer (000 litres)	144,665	157,173	168,101	164,827	170,245
Total (000 litres)	313,837	334,637	350,505	352,939	362,496

Notes: These figures exclude Private Ordering and other head office sales.

financial overview | LCBO NET SALES BY CATEGORY 2005-06

The tables below show the share of net sales held by various segments within major product categories.

	2001-02	2002-03	2003-04	2004-05	2005-06
Canadian Spirits					
Canadian Whisky	25.4%	24.4%	24.3%	23.9%	23.1%
Canadian Rum	12.1%	11.7%	11.6%	11.5%	11.4%
Canadian Vodka	12.2%	12.1%	12.2%	12.2%	12.7%
Canadian Liqueur	2.1%	2.3%	2.5%	2.7%	2.8%
Spirit Coolers	9.0%	9.9%	9.0%	8.8%	8.4%
Canadian Dry Gin	1.6%	1.4%	1.2%	1.2%	1.1%
Other	1.3%	1.1%	0.9%	0.7%	0.6%
Imported Spirits					
Scotch	8.2%	8.0%	8.0%	8.0%	7.9%
Liqueur	6.3%	6.0%	5.9%	5.7%	5.5%
Miscellaneous Liquors	5.7%	5.7%	4.9%	5.0%	5.0%
Vodka	5.0%	5.3%	5.6%	6.3%	6.7%
French Brandy	3.7%	3.9%	3.9%	3.8%	3.7%
Spirit Coolers	0.7%	1.5%	2.0%	1.7%	1.7%
Other	6.6%	6.6%	8.0%	8.5%	9.4%
Total Spirits ($000)	1,392,692	1,433,253	1,483,032	1,551,321	1,598,743
Canadian Wines					
White Table	11.9%	11.6%	11.3%	10.5%	10.4%
Red Table	6.7%	6.9%	7.1%	7.2%	7.0%
Rose Table	0.6%	0.6%	0.7%	0.7%	0.7%
7% Sparkling	1.0%	1.0%	0.9%	0.8%	0.8%
Fortified	1.2%	1.1%	1.0%	1.0%	0.9%
Wine Coolers	0.2%	0.2%	0.1%	0.0%	0.0%
Other	1.9%	1.6%	1.4%	1.7%	1.7%
Imported Wines					
White Table	23.9%	23.1%	22.3%	22.0%	22.3%
Red Table	40.0%	41.8%	43.5%	44.9%	45.3%
Rose Table	2.1%	1.9%	1.6%	1.3%	1.3%
Sparkling	4.4%	4.4%	4.2%	4.2%	4.2%
Fortified	2.5%	2.3%	2.2%	2.1%	2.0%
Wine Coolers	0.2%	0.1%	0.1%	0.1%	0.2%
Other	3.5%	3.6%	3.7%	3.5%	3.3%
Total Wine ($000)	913,281	972,246	1,056,979	1,151,035	1,209,678
Canadian Beer					
Ontario Beer	42.2%	39.6%	38.7%	39.4%	39.0%
Other Canadian Beer	6.0%	6.7%	7.7%	5.6%	3.4%
Imported Beer					
U.S. Beer	10.6%	10.0%	8.3%	7.8%	7.8%
Other Imported Beer	40.9%	43.4%	45.0%	46.8%	49.4%
Sake	0.3%	0.3%	0.3%	0.4%	0.4%
Total Beer ($000)	521,534	584,149	641,364	653,391	679,264
Total ($000)	2,827,508	2,989,647	3,181,375	3,355,746	3,487,685

Notes: These figures exclude Private Ordering and other head office sales.

financial overview | LCBO SALES BY COUNTRY OF ORIGIN – VALUE AND VOLUME

Spirits 2005-06

		Net Sales	Litres			Net Sales	Litres
Canada	$	960,713,002	60,308,648	Puerto Rico	$	779,362	20,453
Great Britain	$	202,810,471	9,945,561	Dominican Republic	$	745,300	26,831
France	$	99,273,835	2,821,738	Guyana	$	678,895	24,257
USA	$	75,739,145	3,429,888	Republic of Yugoslavia	$	587,827	20,433
Ireland	$	58,405,435	2,056,808	Hungary	$	583,017	22,808
Sweden	$	42,250,489	1,816,278	Ukraine	$	570,124	20,396
Mexico	$	38,016,386	1,209,926	Nicaragua	$	486,454	17,618
Italy	$	33,434,528	1,349,935	Denmark	$	473,663	23,674
Russian Federation	$	13,237,730	566,858	Bahamas	$	462,092	14,462
Germany	$	13,111,998	455,164	India	$	445,600	19,089
Finland	$	11,335,290	471,992	Lebanon	$	413,383	15,772
Poland	$	9,719,116	365,290	British Virgin Islands	$	368,612	18,705
Jamaica	$	5,511,548	203,212	Peoples Republic of China	$	292,422	8,507
Barbados	$	4,497,146	168,964	Trinidad	$	184,912	5,061
Greece	$	4,035,700	174,129	Israel	$	138,906	6,929
South Africa	$	3,596,989	139,039	Brazil	$	104,701	3,647
Switzerland	$	3,105,289	101,536	Chile	$	99,077	3,827
Netherlands	$	2,583,027	117,314	Turkey	$	81,414	2,273
Cuba	$	2,125,305	77,374	Japan	$	65,678	495
New Zealand	$	1,149,407	135,790	Sri Lanka	$	52,181	1,865
Czech Republic	$	1,009,188	12,491	Macedonia	$	25,292	998
Portugal	$	975,621	33,269	Belgium	$	24,516	771
Croatia	$	930,415	32,744	Philippines	$	22,395	1,046
Bermuda	$	930,154	37,602	Colombia	$	19,900	501
Australia	$	874,464	167,780	Bulgaria	$	13,991	464
Austria	$	868,541	17,223	Saint Lucia	$	8,494	465
Spain	$	794,514	31,205	Grenada	$	5,538	125
				Total	$	1,598,768,478	86,529,230

financial overview | LCBO SALES BY COUNTRY OF ORIGIN – VALUE AND VOLUME *(continued)*

Wine 2005-06

		Net Sales	Litres
Canada	$	260,634,202	30,222,385
Australia	$	225,288,445	15,435,613
Italy	$	206,617,653	17,464,717
France	$	192,636,614	14,102,740
USA	$	112,636,249	9,669,426
Chile	$	55,490,708	5,128,235
South Africa	$	33,260,131	3,068,611
Spain	$	29,382,410	2,174,350
Portugal	$	26,111,695	2,054,009
Germany	$	20,583,430	1,859,021
New Zealand	$	16,979,678	923,019
Argentina	$	11,662,409	1,085,022
Great Britain	$	4,863,135	1,075,834
Greece	$	4,091,613	466,824
Hungary	$	2,842,601	330,948
Bulgaria	$	1,461,442	174,258
Japan	$	1,186,193	83,074
Israel	$	926,365	70,015
Republic of Yugoslavia	$	884,744	105,116
Belgium	$	715,165	120,606
Austria	$	414,556	28,325
Mexico	$	406,717	36,478
Poland	$	373,016	25,577
Croatia	$	368,134	36,909
Romania	$	364,549	33,516
Republic of Moldova	$	337,777	34,502
Jamaica	$	337,107	30,674
Republic of Korea	$	321,797	14,186
Denmark	$	197,104	15,353
Lebanon	$	173,434	10,877
Macedonia	$	165,425	24,164
Georgia	$	132,805	8,714
Switzerland	$	93,869	4,146
Uruguay	$	84,263	6,297
Ukraine	$	44,448	2,084
Cyprus	$	38,658	3,184
Luxembourg	$	28,547	1,348
Slovakia	$	4,840	229
Ireland	$	1,012	301
Russian Federation	$	572	40
Jordan	$	24	2
Peoples Republic of China	$	24	5
Total	$	1,212,143,560	105,930,733

Beer 2005-06

		Net Sales	Litres
Canada	$	288,008,493	77,747,142
Mexico	$	89,852,403	18,991,439
Netherlands	$	87,486,772	19,522,173
USA	$	53,505,637	15,031,992
Belgium	$	38,481,821	8,226,468
Germany	$	34,960,580	9,641,482
Ireland	$	16,100,443	3,356,094
Great Britain	$	14,218,474	3,264,262
Denmark	$	13,213,445	3,779,008
Poland	$	10,542,291	2,842,193
Czech Republic	$	7,679,623	2,019,894
Brazil	$	3,951,005	823,918
Jamaica	$	2,118,137	443,138
France	$	2,014,708	461,544
Argentina	$	1,715,110	453,666
Austria	$	1,555,589	485,192
Peoples Republic of China	$	1,437,339	362,166
Slovakia	$	1,267,282	342,045
Trinidad	$	1,120,376	265,088
Singapore	$	785,025	231,045
Thailand	$	768,077	166,150
Italy	$	699,516	163,381
Portugal	$	655,701	174,151
South Africa	$	534,363	155,362
Ukraine	$	524,284	141,104
Slovenia	$	491,351	143,986
Japan	$	479,889	125,625
Russian Federation	$	465,132	136,427
Lithuania	$	319,847	92,141
New Zealand	$	278,790	68,083
Cuba	$	236,492	54,442
Philippines	$	218,837	48,426
Croatia	$	168,473	46,250
Kenya	$	165,252	33,840
Latvia	$	156,604	45,241
Sri Lanka	$	152,630	32,571
Greece	$	136,224	32,484
Estonia	$	90,687	25,223
Hungary	$	68,024	26,004
Vietnam	$	46,059	11,361
Australia	$	39,812	9,224
India	$	34,814	8,760
Cyprus	$	27,645	6,018
Taiwan	$	87	31
Total	$	676,773,143	170,036,232

Note: Net value represents net sales excluding Private Ordering sales. In fiscal 2005-06, the LCBO sold products from 72 different countries.

environmental information

This Annual Report is printed on Canadian-made Rolland Enviro100 paper manufactured from 100 per cent post-consumer waste fibre, is Process Chlorine Free (PCF) and used BioGas in its production (an alternative "green energy" source produced from decomposing waste collected from landfill sites) to reduce greenhouse emissions and the depletion of the ozone layer.

Rolland Enviro100 saves the harvesting of mature trees, reduces solid waste that would have gone into landfill sites, uses 80 per cent less water than conventional paper manufacturing and helps reduce air and water pollution.

Environmental savings based on 4,088 lb. / 1,854 kg of Rolland Enviro100 paper:

Trees: Mature trees that would have been cut = 35 trees

Waste: Solid waste not generated = 2,210 lb. / 1,002 kg

Water: Waterborne waste not created = 14.1 lb. / 6 kg
Water/wastewater flow saved = 20,841 gallons / 94,743.5 litres

Air: Atmospheric emissions eliminated = 4,288 lb. / 1,946 kg
Energy not consumed = 34,352,077 BTU
Natural gas saved by using biogas = 5,065 cubic feet / 143 m^3
Lowered air emissions (CO_2, SO_2, NOx) by = 560 lb. / 253 kg

An online version of this Annual Report is available at www.lcbo.com

Certified

Processed Chlorine Free

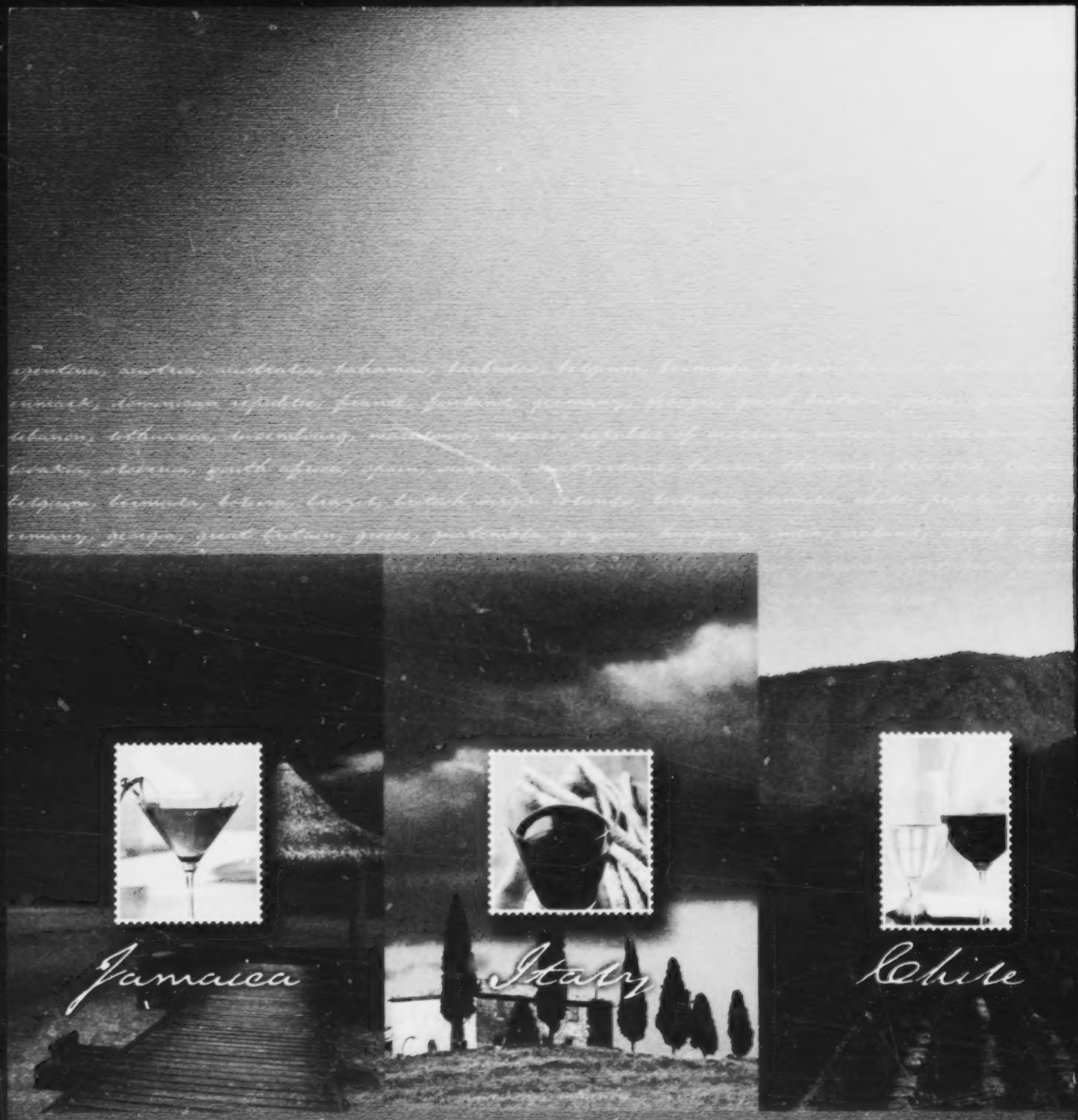
100% Post-Consumer Waste Fibre

Recyclable Where Facilities Exist

BIO GAS ENERGY

Green Energy Source

Recycled
FSC


Jamaica
Italy
Chile